Improving Financial Education and Awareness on Insurance and Private Pensions

OECD

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Foreword

According to most surveys, individuals lack the awareness, literacy and skills to adequately assess their needs for financial and social protection and to choose appropriate insurance and pensions services. Raising awareness and educating individuals on insurance and pensions issues are both critical and challenging priorities for OECD and non-OECD countries. Critical, because of trends towards increased responsibility of individuals for the management of risks and their coverage, as well as the consequences of wrong or inappropriate decisions. Challenging, because of the complexity and sophistication of insurance and private pensions products, providers and markets.

Focusing on these pressing and largely unexplored issues, this book is the second milestone of the OECD project on financial education, after the publication of Improving Financial Literacy in 2005. It gathers unique work and research results carried out on the particularities, main problems and solutions to raise risk awareness and enhance education on insurance and private pensions issues.

The volume is composed of two chapters dealing respectively with insurance and private pensions. After a comprehensive analysis of issues at stake, each chapter points out practical steps and programmes implemented in OECD and selected non-OECD countries. Each part concludes with recommendations on good practices governments and other major stakeholders should envisage to improve public risk awareness and education on insurance and private pensions.

The book is the result of comprehensive and wide-ranging collaborative efforts on the part of the OECD secretariat, delegates and non-OECD observers to the Insurance and Private Pensions Committee, Working Party on Private Pensions and Committee on Financial Markets, main industry and consumer representatives, as well as key stakeholders and experts from many countries who also provided their comments on the good practices and reports through a public consultation hosted on the OECD website. The private pensions chapter has been elaborated by Barbara Smith (former OECD project manager) and Fiona Stewart while Flore-Anne Messy wrote the insurance chapter. The publication was prepared by Ms Flore-Anne Messy. The publication has been finalised thanks to the assistance and technical support of Sophie Saltre and Edward Smiley.

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PART I

Financial Education in the Insurance Sector

Risk Awareness and Education on Insurance Issues: Comparative and Analytical Report

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Overview

In OECD member and non-member countries, education in the insurance area has to address particular challenges linked, on the one hand, to the needs for enhanced awareness of households on their risk exposures and on the importance of choosing protection through private insurance vehicles against such risks and, on the other hand, to the complexity and diversity of insurance products and policies, as well as to the heterogeneity of insurance providers and distribution channels.

Against this backdrop, relatively few countries have already elaborated coherent insurance-specific projects aimed to assess consumers' needs for increased risk awareness and education on insurance issues and to best cope with possible shortcomings.

In this respect, the need for enhanced awareness and education on risk and insurance issues seems to progressively emerge through scattered actions of various stakeholders or the insertion of insurance issues within wider financial education programmes. These initiatives often pursue different goals including instruction, information and advice to consumers and policyholders in the insurance field as well as the assessment of their needs for insurance education and coverage. In this context, financial education should be distinguished from both consumer protection and regulatory requirements promoting the provision of a specific list of information to policyholders by insurance undertakings and intermediaries. Within the financial education approach, information disclosure is considered as one of the various tools that can contribute to enhance the awareness, understanding, capability and responsibility of households with regard to risks and insurance products and to guide them in making sensible choices.

The education process in the insurance sector involves different types of stakeholders: public authorities (including concerned ministries, governmental bodies and regulatory and supervisory authorities), insurance entities, intermediaries and other insurance providers and distributors as well as various other private and social partners, NGOs (*e.g.* associations of insurers, consumers, corporations, institutes, forums and relevant local associations and networks) and consumers themselves.

According to countries' circumstances and particular needs, stakeholders, fulfil different roles in the education process using tailored programmes and tools in order to best reach a wide audience while also

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targeting special segments of the population, and in particular the most vulnerable ones.

Drawing from OECD experience, it seems that any state intervention regarding awareness and education on risk and insurance should not seek to substitute for, but rather endeavour to coordinate existing private initiatives and should be elaborated with a view to assessing its impact, possibly through a cost/benefit approach.

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Introduction:
Definition and Scope of the Report

The importance of insurance products is undoubtedly expanding. In OECD countries[1], they feature at all stages in the lives of individuals, their immediate families and relatives (*e.g.* birth, education, healthcare, income replacement, incapacity, invalidity, risk of dependency, third party liability, major risks, property damage, pensions, savings, annuities, and so on).

Households should be encouraged and provided with the possibilities to enhance their awareness and responsibility relative to the coverage of their overall risk-exposure as well as their understanding and knowledge of insurance products and markets. Yet little research has been undertaken on the subject. Most often, the question of education in insurance is handled within the broader framework of general financial education. This sort of broad-brush approach seems relevant since it means, in principle, that potential consumers and policyholders can be given a better understanding of financial products and mechanisms as a whole. However, the complexity of insurance products and diversity of providers, along with the increasingly essential roles of insurance, are sufficient reasons for taking a closer look at how well various classes of citizens understand them and for better appraising possible needs in this respect.

Of course, it is certainly not possible to specify a level of consumers' education in the insurance area that could be considered ideal in all cases. In this respect, individual countries are certainly best placed to assess possible needs for enhanced education of consumers in the insurance area according to their particular circumstances and the precise role and scope of insurance markets in their country. Moreover, the development of policies and programmes aimed at improving consumers' education should probably build, to the extent possible, on private and/or public initiatives already in place and not seek to replace or duplicate them.

Taking this into account, for the sake of this study, objectives and definitions of financial education in the insurance sector will remain broad acknowledging that they should be adapted to specificities and policy choices of individual jurisdictions. To that effect, with a view to the overall definition developed in the context of the OECD 2005 study: *Improving Financial Literacy: Analysis of Issues and Policies*, financial education adapted to the insurance sector *is the process by which individuals improve their understanding of risk and insurance products and concepts and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of insurance*

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and financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to ensure an adequate coverage of their risk-exposure profile in the long run.

Where:

- *Information involves providing consumers with facts, data, and specific knowledge to make them aware of their risk exposure and insurance opportunities, choices, and consequences;*
- *Instruction involves ensuring that individuals acquire the skills and ability to assess and understand their risk exposure as well as insurance terms and concepts, through the provision of training and guidance; and*
- *Advice involves providing consumers with counsel about important risks and generic insurance issues and products so that they can make the best use of the information and instruction on risk and insurance issues they have received.*[2]

Education in the insurance area is to be understood and developed in a regulatory context that seeks to create the conditions, especially in terms of policyholders' protection and enhancement of overall market integrity and transparency, in which education's core objectives can be achieved. However the regulatory framework and consumer protection needs to be distinguished from the education process. There are indeed overlaps between these notions inasmuch as they deal to some extent with the disclosure and provision of information on insurance. Yet, education on insurance issues goes beyond the provision of information: it seeks to integrate the provision of quality (*i.e.* reliable, objective, intelligible and relevant) information on risk coverage and insurance products but with a view to proper understanding, capability and responsibility of consumers. Consumer protection focuses on regulatory and supervisory aspects notably aimed to ensure that insurance companies provide their clients with appropriate information in order to best protect policyholders' rights and to establish appropriate redress mechanisms. In this perspective, this report will not seek to deal with consumers' protection as such, but will possibly highlight some aspects of consumers' protection and prudential regulation in so far as they are related to encouraging and strengthening consumers' awareness, knowledge (through provision of relevant information) and capabilities as regards insurance issues.

To that effect, the provision of information within the insurance education framework should also be distinguished from the regulatory requirement for information disclosure by insurers and their intermediaries. The objective of the education process is not to list information to be legally provided to potential policyholders, but rather to cope with the asymmetry of knowledge and education. The purpose is thus to ensure the provision of reliable and adequate information and advice to consumers with a view to their specific needs and to make sure that potential customers/policyholders have properly understood the policy and products they intend to subscribe to.

Against this backdrop, the report first focuses on the importance of enhancing awareness and education on risk and insurance issues. It then provides an overview of evaluations carried out in some OECD countries on the level of education of consumers on risk and insurance issues and of their main outcomes. It then appraises the possible and actual roles of main stakeholders in the education process. It finally deals with the different mechanisms and tools at hand to improve the level of awareness and education in risk and insurance and the possible ways forward.

This comparative analysis is also aimed to support the Recommendation on Good Practices for Enhanced Risk Awareness and Education on Insurance Issues endorsed by OECD member countries on March 28, 2008 and presented in the Appendix to this report.

Notes

1. This report covers the 25 OECD countries which have responded to the questionnaire on financial education in the insurance sector, as well as the European Commission and observers in the Insurance and Private Pensions Committee which have provided contributions and notably Israel. The views and contributions of national associations of insurers and of federated groups – the European insurance and reinsurance federation CEA –, and of the international association of mutual insurers – ICMIF –, international association of intermediaries – the WFII – and some national associations of consumers have also been taken into account and reflected when appropriate.
2. Specifically excluded are programmes that offer recommendations regarding individual insurance products and services, for example, advice recommending the purchase of insurance policy X offered by insurance company Y.

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Chapter 1

Increasing Need for Awareness and Education on Risks and Insurance Issues

The growing and urgent need for awareness and education in the insurance area stem from two core social and economic evolutions: first, requirements to cover an increased diversity of severe risks by individuals/households are escalating; second, insurance markets tend to be ever more complex and sophisticated. In addition, increasing awareness and education on risk and insurance issues may also produce positive impacts on the market and the global economy and society.

1. Evolution of risks and households' needs for insurance protection

Increase in perceived and real risks

Emerging and catastrophic risks are probably the most tangible aspect of rising risk levels. For several years now, some OECD countries have been facing a resurgence of risks whose scale and frequency would have been difficult to imagine previously, including modern terrorism, especially since 11 September 2001, and recurring major natural disasters and their catastrophic consequences. Terms like "risk society"[1] or even "fear society" are increasingly used to reflect people's acute perception of their growing exposure to major risks, both emerging and traditional, and to individual risks such as ageing, ill-health, loss of income and other financial and economic risks.

The range of both conventional and new large-scale risks seems to have expanded as the frequency of their occurrence has increased. They include risks relating to industrial and natural disasters, the uncertain consequences of climate change, terrorist attacks and risk related to new technologies (*e.g.* spread of the internet and information, and multimedia society), health risks such as those relating to asbestos, mould, obesity and new pandemics like AIDS and avian flu, as well as risks relating to the consequences of demographic change and the resulting rise in life expectancy.

The novel nature of some of these risks and their media coverage (especially those with catastrophic consequences or direct effects on public health) are instrumental to the overall impression of a higher level of risk.[2] However that may be, the scale and variety of the ways in which these risks can dramatically affect people's lives and the operation of economic and social systems is a matter of genuine concern for society, especially as the means of

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preventing and assessing them before they occur are still relatively underdeveloped.

Enhanced needs and demand for risk coverage

Over the last ten years or so, this increase in emerging major risks has been accompanied by a decline in government financing of the consequences of traditional and individual risks in areas such as ageing, healthcare and income replacement[3] in most OECD countries. At the same time, employers in many OECD countries, especially large firms, have also reduced the coverage of a certain number of these risks as a result of cutting back their social programmes and making greater use of non-traditional or non-standard employment contracts. Fixed-term and part-time contracts and the use of agency staff and self-employed sub-contractors, rising sharply in most OECD countries, do not necessarily provide the same level of social or group protection and insurance (especially for pensions, healthcare and welfare).

In this respect, in a context where life expectancy is increasing, citizens need more extensive protection both to cover ageing and health risks and to supplement or replace reduced public pension and health coverage.

Individual needs to cover growing and emerging personal risks have also increased in line with economic growth and social development. Personal income and savings capacity have risen in many developed countries over the last decades. Broader sections of the population now have savings to invest. They use these funds to subscribe not only financial products but also to acquire housing and other material goods, which also need to be suitably protected (including against potential large-scale risks). The fact that consumers also contract more debt to make such acquisitions has magnified the risk of loss or lack of income in the event of accident or incapacity.

Greater household responsibility for overall risk and choice of coverage

The overall increase in a set of various risks combined with a reduction in public and corporate funding of social risks in most OECD countries potentially implies a greater role for insurance to supplement and complement public or solidarity schemes.[4]

The scope and modalities of this role may vary[5] according to jurisdictions' specificities and in particular to the extent of government intervention to cover different types and levels of risk. In some countries, governments tend to participate more, in at least the partial coverage of certain large-scale risks.[6] Likewise, some social protection schemes also offer more generous coverage of basic risks like health, pensions and unemployment, which private insurance merely supplements. Generally speaking, however, the range of risks covered by private insurance is widening and now reaching the different aspects of individuals' lives to varying extents.

These changes therefore mean that individuals/households are more directly responsible for the definition and assessment of the potential risks they wish to insure, the choice of the terms and levels of their insurance cover. In turn, this evolution draws attention to the essential need for increased consumers' awareness, information and education.

2. Greater complexity of insurance products, markets and regulation

Within the context of the increased importance of private insurance solutions to cover a wider range of risks and demand for protection and savings, the sophistication and evolution of insurance products, as well as the variety of insurance providers, enhance the needs of consumers for appropriate information and education on insurance issues.

Complexity and evolution of insurance products

The relative complexity and heterogeneity of insurance policies often referred to as information asymmetry between non-expert customers and insurers may make it more difficult for consumers to efficiently compare insurance policies. Moreover, the emergence of insurance products which involve a greater risk transfer to the insured, calls for an appropriate level of insurance knowledge and understanding by households.

Insurance products' complexity and specificities

With a view to adequately insure risk, and mitigate moral hazard and adverse selection, insurers develop clauses designed to better define the coverage of potential subscribers.

In order to evaluate the extent of the proposed coverage, consumers should be able to understand exclusion clauses that exclude certain risks or certain consumers for reasons of age, health, income, and so on, guarantee restrictions (specifically, deductibles, coinsurance and ceilings), various criteria for triggering compensation,[7] and the terms and conditions for renewing policies, submitting claims and so on.

This series of clauses and conditions and their effects on the coverage provided by related policies requires additional knowledge of insurance products by consumers as well as appropriate information disclosure by insurance sellers and providers. This enhanced level of financial literacy and skills is not always attained by non-professional consumers. For instance in Australia the 2002 Tracking study[8] mentioned that while 65% of consumers claimed good knowledge of their insurance options, 70% of consumers expressed difficulty in understanding their particular insurance policy.

Furthermore, clauses and essential information differ according to the type of insurance. For life assurance policies, emphasis is often put on the importance of initial management costs, redemption value in the event of early termination, maturity, minimum term (*e.g.* for temporary life assurance), exit options, surrender conditions and so on. In this area, research in the UK[9] shows that most policyholders do not necessarily fully understand the policies they have taken out, or that they understand the broad thrust but are not aware, for example, of the implications of early cancellation.

As far as non-life policies are concerned, consumers should in particular be able to understand and choose the appropriate level and scope of coverage and risks included. For instance, motor third party insurance policies and even motor "all damage" insurance policies do not cover policyholder injury in the event of an accident (if not otherwise mentioned) and provide for deductibles and ceilings according to incurred damages. First, these coverage exclusions and restrictions are not always transparently stated. Second, they may not be obvious for non-expert consumers, if they are not clearly informed when subscribing to the contract. Further, in the absence of specific regulation, standard home insurance policies increasingly exclude large-scale risks (*i.e.* terrorism, natural disasters including flooding, and asbestos), for which insurers propose a separate policy. Yet consumers are not necessarily aware that such risks are excluded, or willing to pay an additional premium to cover them. Insurance products complexity may conversely lead individuals to purchase overlapping insurance contracts; for example, having two different insurance policies providing coverage for the same risk. For instance, individuals can subscribe a travel insurance policy to cover their health costs and/or their belongings while abroad; yet this coverage may be already included in their private health insurance cover and/or in their homeowner insurance policy.

Moreover, policies covering potentially long-term risks or risks with a relatively low occurrence (life, dependency, or large-scale disasters) can indeed be appraised only after a long period of time from the subscription of the policy and typically on a non-regular basis. This means that the initial choice for such policies should be appropriately informed to match households' needs over the long run. This is often complicated by consumer's lack of experience with these sorts of infrequently purchased products and cannot usually draw on the experiences of earlier generations when taking out these policies.

A broadening range of conventional and new insurance products

In order to cope with increasing risks, often with severe consequences, different types of insurance policies have been developed and adapted to meet the growing needs and demands of households for increased protection, saving, security and retirement possibilities. In terms of personal insurance, for example, an individual can choose among a wide array of voluntary and mandatory types of insurance, including life insurance, health, invalidity, incapacity and long-term care insurance, property and accident insurance, and so on. Small business owners must also think about damage, professional liability and industrial accident insurance.

Market evolution and sophistication often imply that consumers have to choose between different types of insurance policies to cover a similar type of risk. For instance, choices are particularly broad for long-term personal insurance. In the life segment, for example, temporary life insurance offers coverage for a limited period and with a relatively low premium; while universal whole life insurance, generally benefiting from tax relief and higher flexibility from an investment standpoint, may be another option for a long-term investment and higher premiums. Consumers, thus, should develop sufficient knowledge of the functioning of these policies and/or be appropriately advised to identify the type of insurance best suited to their lifestyle, family situation, age, financial possibilities, and so on.

This increasing diversity of insurance products and types of policies certainly calls for strengthened insurance literacy and capabilities of consumers in order to help them make informed choices and trade-offs within the constraints of their budget. In the absence of such skills, households' choices will not necessarily be determined by their risk-exposure, the potential scale of damage or the relevance of the proposed products, but by other criteria, preferences or solicitations.

The emergence and fast development of new types of non-conventional policies such as unit-linked products or, to a certain extent, health saving accounts, which involve a greater transfer of risks to policyholders, are also bringing about both new opportunities and increased risks and responsibilities for households.

In Europe, unit-linked insurance products grew at an average annual rate of 24% between 1996 and 2000 to represent 45% of total life insurance premiums. This trend was slowed down by the stock market crisis in 2001, but since then selling of these types of products has again grown at a fast rate and now represents an important share of the life insurance sector.[10] The importance of this kind of policy within the life insurance sector is substantial and expanding considerably in the United States (where they were first developed), Australia, and Canada. It is also noteworthy that starting from a very low absolute volume, they are currently developing in some emerging insurance markets at dramatically fast rates (*e.g.* in China and India and other Asian emerging markets). As these types of products may be used for diverse purposes and to cover different long-term risks including life cover, critical illness, disability, health or long-term care, they are likely to gain even more importance in the years to come.

The significant growth and prospects of unit-linked insurance products certainly require consumers to have an enhanced understanding of the functioning of these contracts, as policyholders bear most of the investment risks and responsibility for the definition of asset allocation. Moreover, policyholders should be adequately informed on the surrender value (if they choose or need to terminate the contract before its maturity) and on the level of any fees attached to it.

In some countries, tumbling stock markets and the resulting fall in the yields of unit-linked life insurance products in 2001/2002 resulted in an unpleasant surprise for policyholders who had not understood that such products entailed a risk of falling asset values when they acquired them. In Sweden, for example, reduced capital of unit-linked life assurance products of groups of policyholders generated substantial discontent, since the policyholders were not fully aware of the risks inherent in their policies.

The development of products such as health saving accounts in the United States, Singapore and South Africa that cover part of health expenses of policyholders under high-deductible insurance policies also implies a greater transfer of risks and responsibility for health coverage to individuals. This responsibility should be supported by adequate understanding and information on the implications of these types of products and whether they fit the households' needs.

Evolving regulation on insurance products and consumers' rights and obligations

Given the technical complexity of the insurance sector for non-professional and non-expert consumers, most OECD member countries have introduced detailed regulations and extensive supervision at national and/or federal/regional levels (*e.g.* in the US, Australia, Canada and in the European Union). The main purpose of these prudential regulatory frameworks is to provide consumers with better protection, to define and determine their rights and obligations as regards insurance products and providers, and to guide their relations with insurers. Examples that are particularly noteworthy include disclosure obligations, obligations to take out specific types of insurance,[11] consumers' rights of redress and insurers' obligations. Regulation and supervision are also aimed to foster the development of certain types of products – health, private pension, micro insurance – and may involve special fiscal treatment or subsidies. In this respect, government actions and regulation also entail the need for understanding and knowledge on the part of consumers of the rights and obligations resulting from these broad and not necessarily harmonised regulatory frameworks.

The level of understanding and knowledge of policyholders on their rights and obligations linked to insurance policies is not always sufficient. This is reflected in the number of mis-selling and legal actions reported by ombudsmen or supervisory authorities. For instance, in most OECD countries,[12] consumers' lack of understanding of their obligations with respect to insurance contracts and, in particular, the information they are required to provide insurers when taking out a policy or filing changes is often a source of difficulty and litigation.[13]

Prudential regulations designed to protect consumers are not necessarily the same across jurisdictions or states in the same federation (*e.g.* Australia, Canada and the United-States). Thus, consumers need to know that if they change their place of residence or choose a provider not established in their jurisdiction they will not necessarily have the same degree of protection, rights and obligations with regard to insurers and insurance contracts. Further, providers of similar insurance products may be regulated differently. In Canada, for example, the segregated funds[14] offered by insurers and the mutual funds offered by investment firms, though similar, are regulated differently.

The wide range of emerging insurance products and their evolving regulatory context are increasingly difficult to grasp, whilst at the same time insurance plays a crucial role in protecting individuals against a growing number of risks. Consumers need not only to become aware of, and to correctly assess their exposure to different risks, but also to develop even greater knowledge of, and capacity on, insurance issues and their rights and obligations. These skills are becoming crucial for consumers to judge and compare the increasing amount of complex information about insurance policies and to make informed choices when subscribing a policy.

Diversity and trends in insurance undertaking, intermediaries and distribution channels

Providers and distributors statuses are diversified in the insurance sector. In OECD countries, specialist providers like national and foreign insurers (who have had freer access to domestic markets following liberalisation), as well as mutual and provident societies provide life and non-life insurance products in a traditional, albeit variable, context of regulation and supervision.

Insurance products are often not offered and sold directly by insurers to consumers. Alternative distribution channels are available, such as conventional intermediaries (insurance agents and independent brokers) and independent financial advisors who provide advice and sell the policies of one or more companies. Financial institutions like banks use their retail networks to promote their own or other insurers' life and non-life products. Other players, like chain stores (*e.g.* supermarkets, department stores and household goods stores, etc.), automobile dealers and travel agents have recently entered the market, taking advantage of their closeness to customers or the sale of other goods or products to promote specific insurance products (on their own or on an insurer's behalf). These new distributors sell both insurance products linked to their activity, such as mortgage insurance, general financial protection insurance for revolving credit on issuer payment cards, extended warranties, motor insurance, travel insurance, and so on; as well as standalone insurance products.[15]

In addition to mail, direct contact, and phone marketing, new distribution and sales channels such as the internet and e-mail are more frequently being used. This is the case for certain targeted insurance products, such as motor insurance (or even simple life insurance products), that are often standardised and require basic background information that insurers can check easily.

In the absence of a fully harmonised legislative framework for these different insurance providers, the variety and nature of certain providers and new media require an appropriate level of education and information provided to consumers to avoid confusion, misunderstanding and potential mis-selling. As aforementioned, the variety of insurance distribution channels may also conduct to situations where individuals have over-lapping insurance covers or are over-insured[16] for a same risk – while not necessarily being appropriately covered as regards other risk exposures.

To that effect, the reform and harmonisation of the regulatory framework is a key issue to be addressed. In OECD countries, traditional providers and their intermediaries operate in a regulatory framework designed to protect consumers, including in the event of insolvency or fraud. However, new distributors linked to other businesses and selling activities (such as banks and above all car dealers, department stores, travel agencies, and so on) are not necessarily bound by the same obligations. In addition, even for traditional insurance undertakings, there may be differences in regulations and policyholders' protection between jurisdictions and, in some countries, between insurance companies and mutual or provident societies, for example, between insurance undertakings and banks, even though they sell similar products.

Use of the Internet raises similar issues. In theory, it is a simple and easily accessible source of information and comparison for consumers, provided that it is used advisedly as we shall see in Part IV. It also enables providers (in principle insurers) that do not have national or regional establishments (*e.g.* the European Union) to provide information, canvass customers and sell products. Although such cross-border promotion and distribution increases competition on the insurance market, it could also generate risks in the case of insufficient consumer information, given the market's complexity and relative lack of transparency. In this perspective, even though in the framework of free service provision and trade, a consumer should be permitted to subscribe a contract with an insurer not established on the national territory, however, it is critical to promote mechanisms to help individuals through an informed and secured process.

The competence and training in insurance issues of providers and sellers of insurance products should be carefully considered. Distributors of insurance products should have a minimum knowledge of the insurance business and the content of policies (*e.g.* understanding of policyholder's rights and obligations, of the main terms of policies, exclusions from guarantee and cancellation policy, etc.) in order to appropriately fulfil their advisory function with respect to consumers. Often this is not the case, especially when providers are not insurance specialists. British consumer associations have reported many cases of mis-selling to consumers, such as when medical preconditions invalidated their policy (often in the case of mortgage insurance). Consumer associations have also reported that in covert surveys, distributors did not ask the essential questions that would enable them to determine the consumer's coverage needs.

Training aside, different providers do not necessarily share the same ethical approach or code of conduct for selling practices and the long-term management of insurance products. When a customer takes out a policy, there may be a conflict of interest between the consumer's needs and expectations and the distributor's motives. For example, the distributor may be bound by commercial restrictions, such as agreements with certain insurance companies, or have an interest (often of a financial nature, for example contingent commission) in promoting the products of one company over another and hence be less inclined to give consideration to potential subscribers' real interests and needs. Consumer associations have reported a number of selling practices where pressure, fear or even lies were used to convince consumers to take out policies that they did not necessarily need[17] and/or that duplicate coverage they already have. In addition, the legal structure of insurance entities and notably their for-profit or not-for-profit nature could also influence consumers' choices if they are informed. For instance, in a mutualist context, policyholders can in principle participate in the entity's management, thereby establishing a more long-term relationship with the institution in charge of the coverage of their risks.

Given the variety of providers, regulated in different ways, consumers should be given the means to develop an appropriate level of education and information on the divergences between players on the market, especially on the financial situation and solvency of these entities, and on their own rights (especially to information). This would enable consumers to choose providers that best suit their particular needs and preferences[18] and that that are sustainable in the long term.

3. Addressing needs for increased risk awareness and education on insurance issues

For the public and vulnerable segments

Appropriate education of individuals on risks and insurance issues is instrumental in strengthening social fairness and sound social and economic development. The ability to ensure the adequate long-term protection of individual assets and wellbeing is central to promoting social and economic integration. On the contrary, failure to address the need for enhanced risk-exposure awareness and individual responsibility has consequences of varying degrees for households, ranging from useless spending on unnecessary and/or overlapping insurance policies to financial exclusion. The benefits of better education are diverse and much depend on the characteristics of the population, their risk-exposure as well as the level of development and role of domestic insurance markets and their regulatory and supervisory framework.

First, the level of awareness to exposure to certain risks, as well as access to insurance education, knowledge and understanding differs first according to the category of population,[19, 20] to income, and then to access to education, independent financial advice and to more general factors such as social class, community, family structure, age, sex, health, geographical situation and so on. Generally speaking, the most deprived and/or fragile populations (such as low income, immigrants, eldest and youngest members of society, jobless and women.) are those in greater need of protection against a wide range of social and economic risks and who are less aware of risks and less literate and skilled with regard to insurance issues. For instance, according to a UK FSA survey,[21] the under-40s are relatively less capable and less skilled in financial matters. Yet, they represent the segment of the population most in need of enhanced education about risks and insurance issues as they are confronted more than past generations with increased and diverse risks for which they bear the responsibility to seek and choose coverage.

Categories of population particularly at risk such as those living in natural and industrial (as well as terrorism) risk-prone areas should be made aware of those risks and of mitigation measures and coverage options available – including micro-insurance tools – to best mitigate and cover their risk vulnerabilities and exposures . In a similar perspective, where no other social protection schemes are available (or no longer available), citizens should be sensitized to their needs for protection against crucial health and ageing risks (including long-term care) and informed about the ways to best meet these needs.

In countries where insurance markets are still in their infancy and the insurance regulatory and supervisory framework is not fully coherent and enforced, households need even more financial information and education on insurance products and policies in order to make confident and appropriate choices. For low-income segments of the population and those living in remote and risk-prone areas,[22] the development of an appropriate regulatory and supervisory framework and incentives to encourage the provision of accessible micro-insurance products using adapted distribution channels based on local networks may also be envisaged.

For governments and private insurance market players[23]

Governments also have a direct interest in seeking to better cope with the needs of households for enhanced risk awareness and insurance capability.

First, governments (and therefore taxpayers) often have to provide retroactive post-event financial support to populations without, or with insufficient coverage. The consequences of large-scale disasters, including terrorism, offer a striking example. Following the series of hurricanes that ravaged the Gulf of Mexico in August and September 2005, the US government prepared legislation that allowed the victims of Rita and Katrina to be covered retroactively by the National Flood Insurance Program.[24] Similarly, government financial support has also been provided to individuals who have not saved enough for their retirement.

In the medium and long term, lack of financial education also has a cost connected to the development of prudential regulation and tighter supervision in order to encourage individuals to protect themselves against risks and to confirm that they are properly covered by insurance products adapted to their needs. Some OECD countries have also acknowledged that tighter supervision could prove ineffective if consumers were incapable of understanding the information they were given. This is compounded by the potential cost of legal action by consumers, whether problems were due to their own lack of knowledge of products and providers, to a lack of information about the true coverage of the policy or to mis-selling. For instance, in 2004 BAFin, the German financial services authority, received over a thousand complaints from policyholders with a saving component (*i.e.* life assurance, health and pension policies) because of confusing advice or misleading or misinterpreted advertisements.

These issues also affect sellers of insurance products, albeit to different extents. Increased awareness of risks and knowledge of insurance issues could enhance the size of their potential market and would thus be beneficial. In return, the failure to address the need for enhanced basic literacy and understanding of insurance products theoretically makes the market less competitive, as consumers are less likely to compare products and choose those most appropriate to their situation.

In addition, inaccurate understanding of insurance products and policies potentially generates a number of risks and costs of an operational, financial, and prudential nature. They may first be operational because consumers who have been sold unsuitable products may cancel their policies early;[25] and second, because it is more difficult for insurers to analyse exposure to risks of which future policyholders themselves have an unclear notion. These two factors make risk assessment less accurate for insurers and can result in different operating costs, such as the premature sale of assets to reimburse policies, reassessment of reserves, and revaluation of premiums. It may also engender financial costs because dissatisfied consumers can take legal action, which implies additional costs for insurers. Lastly, it may entail prudential costs, as market failures such as mis-selling, dissatisfied policyholders and customers left without coverage results in a tightening of regulation and supervision.

In contrast, if consumers are alerted to and fully aware of the risks and of their responsibility for their own coverage and for choosing appropriate policies, the insurance market will be more transparent, competitive and sound. While consumer education cannot replace prudential regulation and supervision, greater consumer education and responsibility on insurance matters could pave the way for the development of more flexible regulatory frameworks that would allow for more adaptable management, better suited to the specific features of each insurance undertaking.

Notes

1. See Bech (1992).
2. Even if other risks like famine, war and certain pandemics have been almost entirely absent for several decades, at least in OECD countries.
3. Public social spending almost doubled between 1960 and 1980 on average in OECD countries but has been falling since 1993. Source: OECD (2005a).
4. In areas such as healthcare (for more information on the role of private health insurance, see OECD, (2004a)) invalidity, incapacity or long-term care, pensions, income replacement in the event of natural disasters or terrorist attacks and various forms of financial protection (loans, vacations, etc.).
5. In the United States economy, private insurance spending accounts for 10% of GDP (and public social spending for only 14.8%) and for over 40% of all social spending. In France, it accounts for only 6.5% of all social spending. Source: OECD *(2005a)*.

6. For example, reinsurance of flood and terrorism risk in France or extraordinary risks (including terrorism) in Spain. For more information about State involvement in covering large-scale risks, for natural disasters see OECD (2003), OECD (2005b), and OECD (2005c).
7. For claims-made policies (increasingly used to cover liability risk in particular) to apply, the claim must be made before the policy expires. That is not the case with loss-occurrence policies, where the policy must simply be current when the incident occurs.
8. The Insurance Council of Australia (2002), Quantum Market: Research part of a series of Consumer and Business Insurance Tracking Studies carried out by the Insurance Council of Australia.
9. See for instance, Mitchell, J. (1993).
10. This was and is especially true in countries such as the UK, Sweden, Belgium, the Netherlands, France and Italy. This evolution has also recently reached other European markets such as Austria, Portugal, Switzerland and Spain for various reasons (*e.g.* pension reform, low interest rates and low profitability of conventional insurance policies). In Spain, in 2004/2005 the growth in premiums for unit-linked insurance products has been around 50%, representing 11% of technical provisions of the life-insurance sector.
11. In addition to motor insurance or work accident insurance (often part of the public social protection scheme), which are compulsory in nearly all OECD countries. See M. Fontaine and H. Rhodes, "Compulsory Insurance in OECD Countries" in OECD (2004b).
12. See for instance, report from the NZ ombudsman and Canadian and UK consumers associations.
13. Most insurance contracts include a questionnaire (often covering health conditions criteria) designed to help the insurer price the risk more accurately. Consumers generally have a statutory or contractual obligation to provide the insurer with all relevant information about their exposure to the risk for which they seek coverage. Failure to comply with this obligation can be very damaging to the policyholder. If it transpires during the lifetime of the policy or on a claim for compensation that the policyholder has failed to disclose certain health conditions, the insurer will deem the policy invalid. The insurer will then be entitled (unless a court decides otherwise) to refuse to cover the policyholder in the event of a claim, even if the claim is unrelated to the undisclosed information. However, it is often difficult for consumers, in all good faith, to judge what information is relevant to their exposure to risks of which they themselves often have only an imprecise notion.
14. Segregated Funds combine the growth potential of mutual funds with the security of insurance. They are mainly sold in Canada as flexible investment products including a variable capital guarantee.
15. Some department store chains, for example, are proposing life insurance products in several OECD countries.
16. Overinsurance refers to the situation where households have coverage in amounts greater than the value of the property insured or the amount of loss sustainable by the insured; for example, several policies of hospitalisation insurance for a total amount in excess of daily room charges.

17. UK consumer magazine *Which?* has reported cases of consumers being given false information: for example that income replacement insurance (in the event of death or unemployment) was mandatory for people taking out a mortgage.
18. For example, *e.g.* greater or lesser aversion to risk, wish to be involved in managing the entity, preference for a certain type of ethical approach and follow-up during the lifetime of the policy.
19. See for example the discussion paper of the Australian working party on financial education and consumers.
20. See Saltz, K. Mahoney *et al.*, (1992); or Assous Laurence and Ronan Mahieu, (2001).
21. See FSA (2006b).
22. For more information on the role played by micro-insurance products to strengthen insurance culture in vulnerable groups of the population and thereby to improve their protection and safety against severe risks see, for instance, Churchill, C. (ed.) (2006).
23. The term "insurance market players" hereinafter broadly covers underwriters and sellers of insurance products including: traditional insurance underwriters (insurance companies, mutuals and provident societies) traditional insurance intermediaries (brokers and agents) as well as non-conventional distributors such as banks as well as other kind non-financial sellers (*e.g.* car dealers, supermarkets, travel agencies, etc.). The terminology also encompasses diverse types of distribution channels including the most modern (*i.e.* internet, cell phone, etc.).
24. Albeit with a 5% penalty and the withholding of a sum equivalent to 10 years of premium payments from reimbursement of the claim (limited to $250 000 for home insurance). Coverage would not include the contents of dwellings or the additional costs of everyday living. There would also be an obligation to maintain the subscription to the program for the property concerned for life.
25. In some countries, this has been the case with whole life insurance products sold to consumers who had more need of short-term savings products. The Polish Chamber of Commerce has reported that in 2001-02, a large number of individuals cancelled their life insurance policies (especially policies linked to investment funds) before they matured. Consumers cancelled their policies – on average after only three years – mainly because they thought that they had subscribed short-term savings contracts (*e.g.* in short-term bank saving accounts or equities) and that insurance policies seemed unattractive compared with the yields on such products. In many cases, both consumers and insurers lost out on the cancelled policies.

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Chapter 2

Evaluation of Individuals' Risks and Insurance Awareness, Education and Capability

National evaluation surveys to assess consumer level of literacy about insurance products or financial products at large have been carried out in a limited number of OECD countries. In this respect, results of the few studies that have been conducted reveal that even though households increasingly need and are responsible for their own protection against a wide range of risks, at the same time, they are relatively unaware of their most significant risk-exposure and the way to address these needs through insurance solutions.

When assessment processes exist, they generally encompass three main types of evaluation: first, the appraisal of individuals' level of awareness of risks, specific exposure and need for appropriate coverage; second, the assessment of individuals level of knowledge and responsibility on insurance issues; and third, the analysis of the level of transparency and selling practices of insurance market players.

1. Risk awareness and inappropriate coverage/insurance

Assessment is important to estimate any shortcomings or flaws that might lead to under-coverage or inappropriate coverage in all or part of the population for potential risks. When they have carried out such assessments, depending on country circumstances, they often focus on natural and man-made large-scale disasters, long-term risks or risk involving important resources in the long run (this may typically be the case for longevity and severe health risks such as dependency), of which people are relatively unaware or for which they may be ill-covered.

Until 2002, the General Insurance Association of Japan prepared a study designed to evaluate consumer awareness of homeowners insurance, including coverage of earthquake risk. In Finland, the ombudsman monitors all types of risk that may affect the population and is responsible for informing consumers about them. For various reasons (highlighted in Box 2.1), results show a lack of awareness of the need to seek protection against risks, when insurance coverage is not compulsorily or otherwise provided automatically by public schemes. Households often seem to underestimate damages caused or needs for resources stemming from potential disasters and thus their coverage needs, in particular, those related to large-scale catastrophes or ageing risks. In Australia, for example, 40% of homes are poorly insured or not insured at all.[1] More recent surveys[2] also suggest that

Box 2.1. **Reasons for low risk awareness and inappropriate coverage**

Several reasons may explain inappropriate coverage and/or under-coverage for potentially seriously damaging risks. First, consumers' short-term mindset does not encourage them to consider long-term risks (such as old age and dependency risks[1]) against which they often believe themselves to be covered. Households can also be reluctant to seek coverage for a risk they consider unlikely or are unaware of. This is typically the case for risks that have serious financial and economic consequences but are characterized by low likelihood of occurrence. Similarly, risks affecting third parties are difficult for individuals to perceive, since by definition they are not directly concerned.

Unfortunately, it is often the adverse experience of catastrophic events and their resulting damages that makes people aware of the risk. For example, the floods that occurred in Eastern Europe in 1997 and 2002, as well as the 2005 series of Hurricanes in the US and the resulting catastrophic floods raised public awareness of this risk and of the magnitude of damages such event could cause. Likewise, the 9/11 attacks have increased awareness of the risk of terrorism in OECD countries and of the need to develop adequate coverage. Research shows that sales of all types of protection insurance increased in the two years after 9/11, including life or dependency insurance that do not necessarily have any direct connection with terrorism risk and its coverage.[2]

This lack of awareness and knowledge about the scale of possible damage is often compounded by a conviction that the State already covers the risk (even if that is not or no longer the case), or will eventually cover damages (for example, in the event of natural disasters or terrorist attacks) – the so-called "Samaritan dilemma".

Moreover, within mature and regulated OECD insurance markets, recent scandals that hit insurance providers and their intermediaries, coupled with cases of mis-selling of insurance products, has made consumers mistrustful of providers with respect to agreements based on long-term solidity and reliability. In countries where the insurance market is in the initial stages of development, households do not necessarily have the inclination or the desire to take out insurance against potentially damaging risks. In former Communist countries[3] and in emerging economies, the lack of an insurance culture and financial education coupled with general mistrust of financial institutions is often mentioned as one of the main reasons, together with low incomes, for the absence or lack of insurance protection even for most needed coverage (*e.g.* against large-scale disasters and health-related risks).

Box 2.1. **Reasons for low risk awareness and inappropriate coverage** *(cont.)*

Finally, research[4] and surveys – see hereinafter – have found that individuals often remain passive about decisions to be made to best handle their risk exposure. To that effect, it may not be enough to provide education to individuals to increase their awareness of risks and ways to prevent and cover them. The challenge rests in seeking solutions to incite them to change their behaviour, to enforce proper mitigation measures and to actively seek and get coverage in accordance with their risk exposure and vulnerability.

1. On this subject, see for example, S. Parente, D. Salkever and J. Da Vanzo (2003).
2. Source: Verzone, Ronald D. (2002).
3. See for example OECD (2004b) and OECD (2005d).
4. For further information on behaviour as regards risks, see for instance: Grenn, CH, (1990) and Lane S.N., Berger A. and Sandercok A.J., (2002).

between 27% and 81% of consumers are underinsured by 10% or more against current rebuilding costs.

More precise assessments of the appropriateness of flood coverage undertaken in several countries[3] reveal similar results. In the United States, only 25% of homes in areas liable to flooding have flood insurance cover (which is not included in standard householder insurance policies).[4]

Surveys are also conducted into the appropriateness and adequacy of coverage of long-term risks such as ageing through life insurance policies. For instance the European Commission carried out a study[5] in 2006-2007 on the market for long-term savings. One of the purposes of the study is to appraise whether these products and recent evolutions best meet consumers increasing needs.

Assessment may also imply monitoring general public awareness and knowledge on the possibilities available to cover these risks including insurance vehicles. This analysis is rarely undertaken. In addition, the criteria for measuring such awareness are rather difficult to define. One interesting initiative in this area is an annual survey carried out by the Korean Insurance Development Institute. The survey is designed to assess the extent of awareness and the existence of an insurance culture among potential consumers according to criteria such as life and non-life coverage rates, policyholder satisfaction and consumers' propensity to take out insurance.[6]

In Australia, the Government is currently conducting benchmark research into financial literacy levels at large. Surveys conducted on the Australian population will also include data on attitudes, awareness and competency in relation to insurance and risks. In this area, a survey of US consumers conducted by the National Association of Insurance Commissioners (NAIC) in 2006 targeting specific age-groups reveals a relatively low awareness of the needs to seek coverage. The survey finds that 20% of young adults would rather let their auto insurance policies lapse to save money. Similarly, 18% would decline employer health insurance to save money. At the other range of age groups, only 12% of empty nesters/seniors think they are very likely to need long-term care and they significantly underestimate the cost of such care (annual estimate is USD 35 000 whereas the actual annual cost is USD 70 000).

In Poland in 2002, the Insurance Chamber carried out a survey on representatives of public opinion (*e.g.* politicians, journalists, civil servants), which revealed a very low degree of familiarity with risk and insurance products.

2. Measuring level of insurance knowledge, understanding and capability

Another stage in assessing the specific education needs of consumers includes measuring real (as compared to alleged) understanding of policies and how insurance works. The NAIC consumer study in the USA shows that although two-thirds of American consumers considered that they had adequate coverage, only one-third thought that they properly understood their policies. Moreover, the same study reveals a need for greater awareness about fake insurance and understanding of insurance policies. In this respect, only 45% of US consumers overall get suspicious about a policy that costs significantly less than comparable ones. In Germany in 2003, NFO Infratest Finanzforschung and the Bertelsmann Foundation carried out studies to identify the level of financial education among adults, the reasons why it was so low and the factors behind individual decisions about retirement saving and investment (including life assurance products). In Japan, the Central Council for Financial Services Information prepared a consumer questionnaire, which investigated the level of consumer knowledge and understanding of financial matters in general (including insurance). The results of the survey demonstrated that consumers' needs for enhanced education and understanding were considerable and urgent. These outcomes have been reflected in the design of future education programmes by the government. As mentioned, with a view to support the project "building financial capability", the FSA in the UK also conducted an extensive analysis of consumers' understanding of financial products. The results of this survey were published in 2003, showing a general weakness of financial planning and comprehension.[7]

To assess inappropriate coverage or mis-selling that may result from a lack of a good understanding of insurance policies, a relatively useful and widely used tool is the number and types of complaints recorded[8] by the authorities (generally the insurance supervisory authorities or ombudsman when relevant). In this respect, in Spain, the Annual Report of Inquiries and Complaints compiled by the Directorate General of Insurance and Pension Funds (DGSFP) tables and classifies the number and nature of consumers' inquiries and complaints received, resolved or withdrawn and the insurers that are the object of complaints. In addition, the DGSFP analyses the outcome of such data collection along with its records on calls to its hotline and the face-to-face support provided. The DGSFP is then able to take remedial measures if deemed relevant.

Other types of assessment relate to consumers (pro)active stance regarding risk and insurance issues: and in particular whether they accurately appraise their risk-exposure and the appropriateness and competitiveness of their insurance (or public) coverage, take remedial action when relevant, shop around before choosing products and policies, collect information (and from which sources), are knowledgeable about what important questions to ask insurance distributors depending on the type of products and know where to find information, advice and help in case of disagreement with insurers. Surveys conducted in OECD countries[9] revealed that, on average, consumers remain passive with respect to risk and insurance issues and related decisions to be made. For example, a UK study[10] based on a representative sample of consumers having yet to subscribe to a life insurance contract showed that only 10% of them had personally considered more than one policy and that 59% had followed the advice of a distributor.

In addition to research by public bodies in some OECD countries, surveys are often carried out by consumer associations (*e.g.* "Which?" in the UK) or research institutes on certain segments of the population (*e.g.* immigrants, young people and old people.) and on certain products (especially life and long-term care insurance). The Japan Institute of Life Insurance, for example, carried out a three-year study of what ordinary consumers know about the terms of life insurance contracts. The most recent study in 2003 showed that the diversification and complexity of life assurance products posed problems of comprehension for consumers.

A number of public and non-governmental websites[11] contain questionnaires that allow consumers (depending on their profile) to assess their own basic insurance needs (*e.g.* life, health, automobile and loss insurance) and their understanding of such policies. Although such self-assessment is helpful in making individuals more aware of, and responsible for, their need for education, such resources do not provide any information about the level of financial literacy and capability of the population as a whole or of more specific target groups.

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3. Evaluating overall insurance market integrity, transparency and practices

Assessing the size, competitiveness and overall transparency of insurance products and markets – including products targeting low-income groups such as micro-insurance policies – and the performances and practices of insurance product providers is important in order to identify possible improvements. As mentioned, education needs may differ according to the maturity and competitive nature of the market. For example, scandals affecting major insurance industry players may require to improve both regulation of the sector and commercial practices, as well as education and capability of potential consumers in order to restore a climate of trust.

In Mexico, an official body called PROFECO (*Procuraduria Federal del Consumidor*) carries out occasional quality surveys of service providers' performance. In the UK, an assessment of both life and non-life insurers was carried out as part of the "Treating Consumers Fairly" programme. In Japan, non-life insurance providers organise conferences and round-tables to measure consumers and media opinion of the selling and management of policies. Feedback is then used by association members to improve their practices. In most jurisdictions, consumer associations also take part in such monitoring, conducting covert surveys of insurance providers, with the aim of sensitising public opinion to any problems encountered. In Poland, under the insurance code, the ombudsman is responsible for carrying out research into the insurance market and preparing reports on the general conditions for the provision of insurance policies. The ombudsman is also responsible for reporting any irregularity to the supervisory authority and informing the public of the results of its research.

Notes

1. Estimates by the Australian insurance industry, 2004.
2. Source: « Getting home insurance right » ASIC. *www.fido.asic.gov.au*
3. The Association of British Insurers (ABI) in the UK and the National Association of Insurance Commissioners (NAIC) in the US.
4. Source: Insurance Information Institute, 2004.
5. *The EU market for consumer long-term retail saving vehicles*, 15 November 2007.
6. The study is generally based on a sample of 1200 people aged over 20 and the results are published on the Institute's website at *www.kidi.or.kr*.
7. In particular, the financial capability survey highlights the following main challenges: individuals are not saving and/or protected enough for/against long-term risks (in particular to cope with the consequences of ageing), many people are subscribing inadequate policies or are taking inappropriate risks and more

worrisome the greatest demands are often placed on those least equipped to deal with them.

8. The result of such data collection should be interpreted with caution in so far as many factors can explain the amount and evolution of complaints, if not otherwise qualified. For instance, an increase in the number of complaints will not necessarily mean that the number of mis-selling or fraudulent selling is increasing in the market, but may show that consumers are more aware of their rights to sue or to seek advice.

9. For instance, see in the US, NAIC surveys, in the UK, FSA, Building capacity initiatives; and in France, see Delmas-Marselet (2005).

10. Source: *Leadership in Consumer Literacy*, Mitchell, J. (2003).

11. See "Check Your Financial Knowledge" on the FSA website (*www.fsa.org*) or "Get Smart About Insurance" on the NAIC website (*www.naic.org*).

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Chapter 3

Main Stakeholders' Roles and Governments' Involvement

Surveys conducted in OECD countries reveal that governments and the public are gradually becoming more aware of the need to improve individuals' assumptions about their responsibility for the coverage and protection for a range of risks – including through insurance policies – as well as their, knowledge and skills relevant to insurance issues. This trend is reflected in a large number of mostly separate initiatives undertaken by different stakeholders, both public (*e.g.* governments, various public agencies and bodies) and private, whether insurance undertakings (*e.g.* companies, mutual or provident societies, etc.), industry and consumers associations, intermediaries, businesses, rating agencies, consumers and policyholders. These different players endeavour in various ways to improve consumer education on risks and insurance issues. Respective roles of this wide range of stakeholders largely depend on jurisdictions' circumstances and assessments of the particular needs, if any, of households and individuals.

In general, the provision of objective information and advice relative to the subscription and functioning of insurance products and policies is mainly a task for insurers and intermediaries. The objective of raising awareness of risks, the need for protection against some of the most damaging and/or ill-covered risks, or of particular types of insurance policies, as well as the strengthening of consumers knowledge, understanding and skills related to insurance products involve a broader range of stakeholders – including public authorities. Yet, boundaries are rarely so clear-cut: some insurance companies and intermediaries – generally through their national industry associations – are involved in the provision of resources and support to consumers in order to increase their awareness of certain risks and their understanding and capabilities with regard to insurance matters. Moreover some public-private partnerships are launched to enhance knowledge and understanding of risk and insurance issues.

1. Governments' role/intervention

The extent of state intervention depends on the assessment of needs for education in the concerned jurisdiction and on the efficiency of programmes and initiatives already carried out by other stakeholders including insurance market players. Any direct involvement of the state is generally not aimed to replace or consolidate a range of private initiatives, but rather to benefit from the experiences of programmes in place and to assist them to best respond to

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consumers' needs and cope with possible shortcomings in the education process. The development of specific public policy and projects to improve literacy and capability on risk and insurance issues would ideally be designed within a cost and benefit approach (taking into account initiatives already in place and the assessment of the best means to achieve efficiency), involve evaluation criteria and steps to appraise the impact of such programmes.

Against this backdrop, in some OECD countries, governments and public bodies often play a role in instructing/ informing citizens about risks and about the role that can be played by insurance. They provide information on insurance mechanisms, products and their relevance as well as on consumers' rights and obligations with regard to insurance products and providers. Lastly, governments are seeking to ensure through regulation that consumers have appropriate level of coverage for most severe and widespread risks and to promote the transparency and integrity of insurance markets.

In this respect, some financial or insurance supervisory authorities[1] and governments[2] have a statutory objective to promote public understanding of the insurance (and/or financial) products and markets (see also Annex I.1 for details on responsible authorities). With respect to the EU, its Whitepaper on Financial Services 2005-2010[3] clearly states that primary responsibility for consumer financial education rests with the Member States, while the European Commission can still promote best practices in consumer financial education and facilitate common projects. In some countries, education programmes are primarily carried out by private entities or NGOs such as consumers and/or industry associations.

An important characteristic of governments' approaches to education in the insurance area relates to their scope. In the few cases where coordinated programmes to promote financial education exist, they generally go beyond the specific framework and issues of the insurance sector. In countries like Australia, Japan, Korea, the Netherlands, New Zealand, Spain, the United Kingdom[4] and the United States[5] to some extent, coordinated programmes have been set up for the entire financial sector, including insurance. A comprehensive approach of this nature is efficient in its delivery as resources can be brought together and a host of relevant players can be implicated in order to tackle a set of problems that may have similar origins. However, insurance issues are often broached only after those relating to banking and investment products, and may therefore be given less attention than they deserve, especially with regard to awareness of specific risks (that go beyond mere investment risks), understanding of insurance mechanisms and specific new policies. Some countries are developing programmes targeting either certain risks, such as risks with serious consequences (terrorism and natural disasters), recurrent risks (automobile accidents) and poorly covered risks (pensions, long-term care and incapacity), or populations that are more fragile or need tailored programmes.

Instruction

Role of public school programmes[6]

According to the definition developed in the 2005 OECD report on *Improving Financial Literacy* and adapting it to the insurance sector, instruction involves ensuring that individuals acquire the ability to assess and understand their risk exposure as well as insurance terms and concepts, through the provision of training and guidance. From this standpoint, instruction is usually regarded as a matter for governments, especially where instruction for young people is concerned.

Actually, as we shall see in the following section, training competent experts in the insurance sector is crucial to ensuring the development of a sound insurance market. Yet, it is equally essential to enable the population as a whole, and in particular the less financially literate segments, to become familiar with the main risks they will have to cover, the role and basic mechanisms of insurance, as well as with their main rights and obligations. Although such programmes are rarely developed in OECD countries, some interesting initiatives are worth noting.

In Mexico, for example, the *Comision Nacional de Seguros y Financieros* (CNSF) has taken part in a series of events designed to instil an insurance culture in Mexican society. One example of this type of activity is the "safety week" organised each year by an association of insurance agents to promote prevention values among primary school children through open discussions in class.

In a similar fashion, the initiative of the General Insurance Association of Japan in partnership with the Japanese government has launched the *hands-on educational program for elementary schools students*. The program is designed to guide children to gradually discover the importance of disaster prevention. For instance, children explore their towns and communities and find facilities related to disaster. Children then collate their experiences in a disaster prevention map and make presentations of their findings before the class.

In principle, the secondary school level seems better suited to more detailed instruction about general notions relating to risk and insurance (*e.g.* law of large numbers, risk spreading, moral hazard and risk selection.), how common products work (*i.e.* life, non-life/damage, liability insurance), the market and providers, and the assumption of individuals of their responsibility for insurance-related choices, rights and obligations. The purpose of such instruction is not to provide technical knowledge of how insurance products and techniques work in detail, but rather to give an introduction to the fundamentals of insurance, especially essential trends and issues within the sector (*i.e.* the risks, the different stakeholders' motivations, their basic workings).

In most cases, risk awareness and the fundamentals of insurance are not dealt with, whether in primary or secondary schools. However, such issues are sometimes addressed in connection with related subjects (such as mathematics, economics or social sciences). As a rule, insurance is often included in broader programmes on financial issues.

Against this backdrop, some countries have established programmes involving cooperation between public and private stakeholders (*e.g.* foundations, institutes and associations) to sensitise and train teachers on risk and insurance mechanisms and to provide them with materials and textbooks for this purpose.

In Australia, in 2005 a National Consumer and Financial Literacy Framework[7] has been developed by the Ministerial Council on Education, Employment, Training and Youth Affairs to clarify the learning needed to fulfil the national goals of schooling in the 21st century. This framework is notably aimed to provide guidance to states and territories in the development of their curricula from kindergarten to year 10. Above all, this framework in collaboration with the Financial Literacy Foundation, defines guidance to developers of support materials and the professional development of all teachers of consumer and financial literacy. In the future, the Foundation will further build on existing initiatives to increase the level and quality of financial literacy education (including on risk and insurance issues) being provided through schools, vocational education and training and the university sector.

In Germany, a number of programmes have been introduced with the aim of better integrating economic and financial subjects into school curricula. Cooperative initiatives with organisations like Initiative Wirtschaft & Gymnasium aim to include financial education in the school programme. The "Handelsblatt macht Schule" programme, a cooperative venture between the German financial newspaper and the Institute for Economic Education at Oldenburg University, provides teaching manuals on economic issues specially adapted to schools' needs. The North Rhine/Westphalia Chamber of Commerce has launched a pilot scheme named Prawis, designed to promote training in practical economic issues at the secondary level. Foundations in cooperation with the education ministries of various Länder and the industry use the web portal for online financial education (*ökonomische Bildung* online) to offer teachers additional training in economic and financial issues – including insurance issues.

In Japan, under the aegis of the Discussion Committee, the new programme to integrate aspects of financial education into the school curriculum drawn up by the FSA, the Central Council for the Financial Services Information and other relevant ministries provides specific training for teachers.

In the UK, the FSA has developed "Make the most of it!", a resource pack for teachers of children aged 14 to 19 designed to stimulate dialogue on personal financial issues, including insurance, and to give young adults the necessary knowledge and confidence to assume responsibility for their choice of financial products and protection.[8] In the USA, the Insurance Education Foundation provides a wide range of courses through various universities and on CD-ROM designed to improve teachers' and students' knowledge of insurance policies. It also provides manuals containing course materials for teachers.

The promotion, development and recognition (through media coverage) of specialist academic research in the insurance field also indirectly helps to raise public awareness of the issues and to increase the efficiency and transparency of markets in the longer term. The vast majority of OECD countries offer a variety of specialist higher education courses in the various branches of insurance.[9] In Poland, there has been media coverage of specialist studies in insurance. Each year the insurance ombudsman, in cooperation with the Insurance Education Foundation and the Insurance Newspaper, organises a competition for the best master's or PhD relating to insurance and pensions. The ombudsman also takes part in many student gatherings and seminars and cooperates with universities offering courses in insurance. In Mexico the CNSF, with the Mexican Association of Insurance Institutions (AMIS) and the Association of Mexican Surety Firms (AFIANZA), organises a contest for research into insurance and prevention. The contest involves professionals from both industries, researchers, teachers, students and the general public, preparing specialist papers on the subject.

Role of continuous education

Out-of-school, various initiatives, mainly though not exclusively from public origin, are also aimed at instructing individuals on risk and insurance issues. Continuous and on-going education after school is especially important in that individuals' insurance needs change throughout their lifetime according to their evolving family, health, social and economic situation. Ongoing training is also a way of reaching certain segments of the population which have little access to formal education, taking advantage of teachable moments (such as changing occupational, family or patrimonial situation, or post-disaster events) and using more tailored tools and supports best fitted to various needs and literacy levels.

In this perspective, seminars and courses are organised in some countries. In Germany, adult education centres (public institutions) nationwide offer basic financial education (including insurance) with courses on various topics tailored to specific needs. In Slovakia, teachers specialising in insurance give courses and seminars to raise awareness among the public as a whole. In the USA, the NAIC through its "InsureU" website[10] dedicated to consumers offers year-round courses on insurance regulation and events such as an insurance week, intended for a wider audience. In Japan, the FSA publishes brochures for students, designed to increase their knowledge of financial matters. In Spain, the National Consumer Affairs Institute,[11] an autonomous body under the aegis of the Ministry of Health and Consumers Affairs provides, among other things, education through the School of Consumers Education and support to consumers and service user associations. It also designs specific training courses on National Market Control Campaigns, attending to the needs of consumers and their associations. In Australia, the Financial Literacy Foundation has established a network for educators and trainers in financial education. Through this network, the Foundation collects and disseminates news on financial literacy initiatives. The Foundation will also build part of its website[12] to support educators, trainers and human resources professionals in implementing financial literacy programmes. Information will include case studies of financial literacy education, summaries of the quality of financial literacy education resources, and news on financial literacy developments and events.

Certain supervisory authorities like the NAIC invite consumers to some of their meetings and to take part in discussions in order to provide direct experience of the workings of insurance companies and the complexities of the market. The NAIC has had a consumer liaison programme and committee since 1992.

In France, the Financial Market Authority (the AMF) has recently created a specific body aimed to train households in order to reinforce their level of economic and financial education using various information and instruction channels.[13] This typically includes information on life insurance products. One of the purposes of such organizations is to teach consumers to raise the appropriate questions when dealing with insurance distributors.

In most OECD countries, consumer education on insurance issues is far from systematic for non-specialists. At best, such education initiatives form part of wider programmes spanning all financial products. This relative weakness means that, when they become adults, most consumers of insurance products rely on the quality of the information and advice provided by various stakeholders, and in particular insurance providers and distributors themselves.

Informing/advising

Apart from these few instruction initiatives, so far public authorities have mainly played a role in informing and further advising consumers on risk and insurance issues at large through a number of diverse tools (see also part IV on programmes).

Public authorities involved in this information role include ministries (i.e. mainly finance, economic and education), insurance and financial services regulators[14] and chambers of commerce, which are often active in providing detailed and objective information about risks and insurance products. More specific bodies like the Insurance Damage Chamber in Canada and specialist committees created in certain countries (*e.g.* Japan and France) also provide information and advice about insurance. The ombudsman in Austria, Germany, Greece, Finland, Poland and the UK and CONDUSEF (*Comision Nacional para la Proteccion y Defensa de los Usarios de Servicios Financieros*) in Mexico also has a role in providing information.

Most often information is offered through guides, brochures and leaflets. The development of additional modalities for providing financial education includes websites launched by regulatory authorities (see Box 4.1 for selected examples), the organization of events, conferences and public awareness and prevention campaigns. Information generally encompasses selected risks, products, types of providers and regulation and may also go further advising consumers on insurance issues and products.

In most OECD countries, government agencies (such as regulatory supervisory authorities and ministries) have developed websites providing general information on how insurance works, what are individuals' coverage needs (often taking a FAQ approach with questions like "Why do I need insurance?") and the different types of insurance and products, in particular the most common like motor, home, life, health and long-term care insurance.

In some cases, information is also provided for a particular type of product. In France, after the PERP savings scheme was introduced in 2004, the CCSF (*Conseil Consultatif du Secteur Financier*) examined how this type of long-term investment product was sold. The CCSF then sought to improve information about savings and life assurance products, culminating in the creation of a questionnaire setting out the questions consumers should ask themselves before making an investment or taking out life assurance. A glossary of insurance terms has also been assembled and widely circulated.

Further, public bodies[15] also offer advice and tips on choosing between different products and comparisons of products by price, exclusions and scope of coverage. For example, advice on choosing and comparing insurance products are provided by the FSA in the UK, the Insurance Commission within the Ministry of Finance in Israel, ISVAP (*Istituto per la Vigilanza sulle Assicurazioni Private e di Interesse Collettivo*) in Italy, the ombudsman in Finland and the NAIC in the US. Specifically, the guides developed by the ISVAP and the Insurance Commission in Israel recommend that consumers compare products before taking out a policy and ask for further information, often providing consumers with specific questions to be raised.

In Italy, a specific guide to life assurance also gives detailed advice on subscribing life insurance products. In particular, it advises potential consumers to consider the benefits (in the case of an annuity), the consequences of terminating the policy, possible exclusion clauses for certain causes of death and the level of charges.

Likewise in Israel, the internet site of the Commissioner has a Buyers Guide for Life insurance and Long Term Care. These guides offer explanations of the need for insurance coverage, types of insurance coverage available, the rights of the insured and questions that potential policyholders should ask the insurance intermediary or company.

Some government bodies also propose a personalised assessment of an individual's situation in relation to insurance[16] and long-term projections and simulations for products with an investment and savings component (*e.g.* life insurance, pension and long term care). In Sweden, the Insurance Consumer Bureau, under the aegis of the consumer agency, provides personalised advice on insurance to consumers. In Spain, the Public Service Unit of the DGSFP also plays an advisory role (see sub-section on protection).

In the framework of the "Insure U" initiative in the US, a sub-section of the NAIC website, proposes a wide range of advice, tips, quizzes and training by age group and categories of the population (including small business entrepreneurs), on how to assess one's needs for insurance coverage, how to buy and compare insurance products, how to file a claim, and so on.

Information about companies and intermediaries operating on the insurance market is also often made available. In Poland, the website of the insurance and pension fund regulator KNUiFE provides information on changes to the insurance market; for example, liquidations, mergers and parting of insurance undertakings and statistical data on the market and providers. The ombudsman in Finland and Poland is also responsible for carrying out market studies. Comparisons between insurance providers and products sold are also often made available from various sources, including supervisory authorities (the UK FSA), financial analysts and rating agencies[17] – in New Zealand they are government-approved.

Information about the statutory and contractual rights and obligations of consumers and insurers within each jurisdiction is often provided by public authorities through the insurance regulatory and supervisory authority's website. More detailed information is usually available concerning compulsory insurance and the content of such policies (see the following section). In most OECD countries, dedicated websites provide information about applicable regulations in the insurance sector. For instance, as in many other jurisdictions, Iceland's FSA has put all the prevailing laws relating to insurance online, together with information about companies and brokers operating on the market and policyholders' main rights and obligations.

Information about current regulatory reforms, whether relating to policyholders' rights or to specific changes such as reduced levels of protection under public schemes following a reform, should be provided and taken up in the media. Poland's unfortunate experience in this respect highlights the importance of adequate public communication. The lack of information about insurance reforms in 1999 led to a wave of early cancellations of life assurance policies (see Part I). In the UK, key information relating to the insurance industry's regulatory reform programme that started in November 2001 is available as a publication on the FSA website (*Insurance Sector Briefing on Delivering the Tiner Insurance Reforms*).

Supporting the education process: protection/regulation

Raising awareness and education on risk and insurance issues has become a key complementary tool to regulation and supervision. Although better education may provide a more flexible regulatory framework, in practice, it is difficult to improve the level of education across the entire population. Some sections of the population remain more fragile and potentially more exposed to risks, meaning that regulators should maintain an appropriate level of consumer protection. To that effect, some aspects of the insurance regulatory framework can be pressed to support the financial education process.

First, some policy measures, such as compulsory insurance (see Box 3.1) and targeted incentives can be aimed to enhance people's awareness of the risks to which they are potentially exposed, improve the level of insurance coverage, and promote the population's sensitisation to the role and use of insurance products. Partial or total tax exemption for premium payments and/or profits, to insure against certain risks should also be mentioned. In this respect, a majority of countries accord special treatment to life insurance products, together with private health insurance,[18] invalidity and long-term care insurance.

Second, with a view to promoting competition, transparency and quality service for consumers of insurance products, OECD member countries, at regional and national levels,[19] are endeavouring to harmonise regulations between institutions, products and states or countries. Most OECD countries have reformed or are considering the necessity to modify their regulations relating to the quality and relevance of information on insurance and the way information is provided by insurance undertakings and intermediaries to potential consumers and policyholders.

Box 3.1. **Possible role of compulsory insurance**

Compulsory insurance* for individuals has been introduced in many countries in order to provide people with immediate and comprehensive protection against certain types of risks. Compulsory insurance may be justified and relevant in some cases, such as when the risk is major or frequent and potentially affects a large segment of the population and at the same time is poorly anticipated. Examples of this kind of risk can be found in motor TPL insurance, work accident insurance as well as insurance against catastrophic risks (*i.e.* terrorism and flooding, etc.) and life and long-term care insurance. Those who engage in high-risk activities such as hunting may also be required to take out compulsory liability insurance. Compulsory insurance is particularly relevant when the risk is not to the policyholder but to third parties, as with automobile insurance. In these cases, there is no direct aversion to risk or incentive to take out insurance cover even though financial liability for the risk may greatly exceed an individual's financial capacity.

Thus, compulsory insurance can be considered relevant and useful if a lack of appropriate coverage cannot be immediately offset by greater risk awareness, if it enables premiums to be reduced because the risk is spread more widely, and/or if it enables the entire population to be better protected. In jurisdictions where an insurance culture is lacking or where the market is only beginning to emerge, it may assist in promoting wider use of insurance and familiarizing individuals with insurance as a means of protection.

Nevertheless, some emphasise that compulsory insurance should not be regarded as a systematic solution, for various reasons. First, it is not necessarily appropriate for the entire population or sub-sections of the population. Second, it may pose other problems relating to market capacity, moral hazard and risk selection for insurers. Third, it may have an adverse effect on consumer responsibility and education. As a general rule, compulsory insurance should not replace consumer information and education or serve as a reason for not providing them.

In fact, compulsory insurance probably requires more information, regulation and supervision to protect policyholders and inform them of their obligation and of the products on offer. In some provinces of Canada and in Italy, for example, motor TPL insurance policies contain more information than non-compulsory policies. Likewise, in France tighter supervision is deemed necessary when insurance is compulsory to ensure that the obligation is respected and that coverage is appropriate. In Finland, information about compulsory insurance is specifically provided by the authorities or bodies in charge, including the motor insurer's Centre, the Patient Insurance Centre and the Social Security Institution.

* Other modalities of mandatory insurance involving compulsory provision of insurance covers by providers are not dealt with in the report as they are not directly linked to consumers' awareness and education on risk, risk coverage and insurance issues.

Lastly, procedures to help, advise and protect consumers who have disagreements with their insurers have been introduced in most countries to guide consumers through the process, to mediate, settle and provide appropriate redress mechanisms when needed (see Annex I.2 for details on mediation and redress mechanisms). In some countries, insurance (or financial services) mediators or ombudsmen have been appointed to the initiative of the government or the industry. Most of them have the task of guiding consumers who wish to file a complaint, find a solution, or negotiate with the insurer. They are also in charge of collecting data on possible and recurrent mis-selling in the market and proposing ways to address these difficulties without affecting insurers' reputations.

2. Role of insurance market players[20]

As mentioned in Part I, the role of insurance market players is central, on the one hand, to provide necessary and objective information on insurance policies, and, on the other hand, to advise consumers on insurance products and coverage best suited to their needs. In pursuing these key roles, insurance providers and intermediaries are regulated and supervised in most OECD countries. In addition, some insurance market players have chosen to develop good selling practices and codes of conduct to best integrate financial education within their governance structure and mechanisms.

A distinction should be made between general information about insurance, insurance products and insurance providers available from a vast number of stakeholders, and information and advice provided by insurance companies or their intermediaries directly to their customers and consumers in a commercial context. Further, the accountability of companies in this respect mainly concerns their direct customers.

Respective roles of insurers and intermediaries[21]

Because of the evolutions sketched out in Part I, insurance undertakings and a wide range of distributors play increasingly important, though distinct, roles in the provision of information and advice to potential policyholders. Against this backdrop, the respective roles of insurance underwriters and intermediaries and the extent of their responsibilities are often clearly delimited and defined in OECD regulation and/or codes of good practices and/or conduct.

Typically, insurers are responsible first for the drafting and pricing of contracts and for determining to which customers/policyholders' profile and risk-exposure they are best suited. Second, insurers are generally responsible for the provision of means (information and possibly training) necessary to the smooth distribution of insurance products. Intermediaries, on the other

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hand, are generally responsible for the communication of the initial information provided by the insurer and for advising, when relevant, potential customers. Of course, the two functions may be combined if insurers are directly selling their products.

The advisory function of intermediaries (or of insurers directly selling their products) is often emphasised insofar as most surveys[22] conducted in OECD countries show that a large majority of customers/consumers do not shop around, rely on their intermediary to provide them with the necessary information and guide their choice between various insurance policies and providers. Intermediaries also play an increasingly important role during the lifetime of a policy and when submitting claims or making a complaint. In principle, intermediaries, insurance companies' agents and other providers or distributors of insurance policies are specialists in insurance matters and specific products and have a close relationship with consumers. This position theoretically enables them to give consumers advice that is best suited to their needs.

However, a number of cases of mis-selling (deliberate or not) and the diversity and complexity of the status of insurance providers and intermediaries suggest that they do not or are not always able to properly fulfil these responsibilities. In this respect, education and advice on insurance issues should be further integrated into both insurers and intermediaries' governance structure and selling practices. To that effect, in addition to legal obligations, a number of associations of insurers[23] and intermediaries[24] have issued codes of conduct designed to ensure that their members' practices are in the best interests of customers and consumers. They also offer their members specialised training and materials to better inform and guide staff selling insurance products.[25]

Provision of appropriate and quality information

The provision of information on contracts and policies either directly or through intermediaries is principally the insurers' role. As mentioned by some delegations, such tasks are essential in the financial education process in order to enable policyholders to compare products and make informed and sensible decisions on insurance products and issues. Most OECD countries have developed extensive regulations or self-regulation as to the information insurers and intermediaries should provide to consumers on both products and providers. As it is not within the scope of this paper to describe extensively regulation or good practices relating to information disclosure, this is dealt with in more details in Annex I.3.

It should be noted that in many OECD countries, legislation and codes of good practice tend to insist less on the amount and details of the information to be provided to consumers, which is already broad, and more on the simplicity and intelligibility of pre-contractual information and the form in which such information should be made available to consumers. For instance, in some OECD countries, regulation of life insurance contracts require that consumers be provided with a short information note of the product summarizing its most important features in a clear format. A number of OECD countries also stress the importance of providing timely information (before the subscription of the contract and at the time of renewal), using clear and simple language, avoiding technical terminology, in the language of the country (or of that used by a substantial proportion of the population) and without small print.[26]

Some countries such as Spain have also developed specific regulations regarding the sale of contracts over the internet (providing that the insured are aware of the possibilities for cancellation of the policy and receive a paper copy of the insurance contract).

Development of adapted and neutral advice

The central role played by intermediaries in providing information and advice to consumers is acknowledged by most OECD countries. Notably, in the development of regulatory requirements aimed to guarantee that selling practices take into account consumers' profiles, needs and interests; ensure that advice is objective and can be clearly distinguished from promotion; enhance on-going and appropriate training procedures for staff and establishments that provide and/or distribute insurance products (*e.g.* insurers, brokers, agents, as well as other types of distributors such as banks, etc.) and for advisors in the sector (see details in Annex I.4).

Role of insurance market players in a non-commercial framework

Aside from their role in information and advice in the commercial context, some insurance market players have developed separate activities aimed to raise the awareness of citizens on particular risks or to make them more knowledgeable of, and capable on, insurance products. This may be accomplished through the development of dedicated websites offering advice on why insurance products are needed, assessing the needs of consumers and comparing products. Recently, many insurance companies and large intermediaries have developed similar websites. This can also be achieved through a wide range of other initiatives including: the elaboration and provision of dedicated training materials to teachers of school-aged children (as long as such documents avoid advertising for a specific company); encouraging insurance staff to become involved with schools to organize and/or contribute to seminars to inform and train participants on insurance issues; and the funding of independent institutes and foundations in order to instruct individuals on insurance issues. It should be noted that these types of activities are still limited in OECD countries for the insurance sector. Yet, the initiatives of some key health insurers such as Blue Cross & Blue Shield of Rhode Island which launched in July 2005 the first organization to enhance health literacy for all consumers as an attempt to raise awareness of important health risks and to help consumers better deal with health issues.

3. Roles of other social and economic stakeholders

Strengthening awareness of the importance of education on insurance and addressing the challenge of overcoming consumers' passive behaviours calls for the involvement of other stakeholders in the provision of information and neutral advice about insurance.

Such initiatives are taken by a wide variety of players including associations of insurers, intermediaries and consumers, research bodies, foundations, rating agencies, firms, trade unions, among others. They offer varying degrees of information and advice, using diverse channels and tools.

Insurance industry associations are important sources of information notably through their websites which help consumers gain a better understanding of insurance and to make informed comparisons and choices between products. A number of associations[27] in OECD countries provide basic information on insurance (needs, products) according to the type of consumer (*e.g.* families, individuals, senior citizens, retirees, workers and small entrepreneurs, etc.) to help them understand the terms and conditions of policies and contracts.[28] The same organisations also offer comparative tables of prices and products,[29] as well as interactive calculators for specific products (such as life or home insurance). More detailed information about certain specific types of insurance, such as motor insurance (*e.g.* Profeco in Mexico), home fire insurance, life insurance, health insurance, long term care insurance, are often available depending on the degree of development of the insurance market (*e.g.* associations in South Korea, the UK, France and USA,[30] state by state in the latter case). Likewise, intermediary associations[31] in various countries also participate in the provision of information and advice to consumers.

Some insurance associations also go further and develop codes of good practices (see previous section), targeted risk prevention campaigns (for instance on large-scale and health risks) and build partnerships with public authorities to provide training and materials to enhance teachers and citizens knowledge of, and capabilities on insurance issues (see previous section on the role of governments in financial education instruction).

Consumer associations in a number of countries[32] are also extensively involved in providing consumers with information, help and advice. The Dutch consumer association issues brochures and a magazine (*Geldgids*) that compares different products and gives advice. In Germany *Stiftung Warentest*, a government-funded consumer association offers information on the comparability of policies. The federation of German consumer organisations has also published information and advice on insurance issues. In Austria the *Verein für Konsumenteninformation* organises seminars and lectures and offers individual consultations by phone, while the *Bundeskammer für Arbeiter und Angestellte* also offers assistance and similar information to its members. Various associations in Switzerland, like the homeowner association and the small business association, provide their members with information on insurance matters.

In some countries, investor associations like the Investment Company Institute (ICI) in the United States also provide shareholders with personal finance information, including products proposed by insurance companies.

Other private bodies like insurance research institutes (*e.g.* the Insurance Institute in Switzerland, the insurance training Institute in Turkey, the Insurance Information Institute in the United States); or safety organizations such as the Institute for Highway Safety, the Institute for Building and Home Safety in the US, foundations and rating agencies intend to provide neutral, high-quality information about risks, insurance products and the situation of providers. Some jurisdictions have had a proliferation of associations specialising in insurance information, often by types of product.[33]

Corporations can also play an important role in informing and raising their employees' awareness on risks and insurance issues, often replacing the role of schools in exposing their employees to the insurance culture and providing them with training on basic insurance products. This is most common in countries where government protection has been historically low and the insurance industry has therefore taken up the slack through the provision of group insurance policies (which are often more flexible and generally include retirement savings, healthcare, provident and life insurance products). It is not a coincidence that the first type of insurance designed to cover workplace accidents (often initially offered by employers) appeared within firms. One interesting initiative is AEGON's innovative web-based software application, Benefit Solutions,[34] which gives the staff of a firm that has signed up to the product access to detailed financial information, including a large number of insurance products, and enables them to carry out projections of their own situation in relation to risks before offering them a range of products adapted to their profile.

Notes

1. For instance, the FSA in the UK.
2. Article 51 of Spanish constitution stipulates that the public authority "to further the dissemination of information and education of consumers and users of services".
3. COM (2005)629, available at *http://ec.europa.eu/internal_market /finances/policy/ index_en.htm*.
4. For more details on this comprehensive programme see the seven points of the action plan contained in FSA (2006a).
5. A federal programme tackling financial education issues at large is carried by the US Treasury. Specific education in the insurance area is also being undertaken by the NAIC.
6. This report does not aim to give a detailed list of all educational programmes relating to insurance in OECD countries, especially as a report on financial education programmes in schools (including insurance) should be prepared in collaboration with the Education Committee as part of the ongoing financial education project. In addition, it should be stressed that, for the time being, since insurance mechanisms and the insurance market are considered complex, these notions often do not appear until late in the secondary school curriculum, often even then mostly as part of specialist cycles for students intending to pursue a career in that field.
7. For more information see the Ministerial Council on Education, Employment, Training and Youth Affairs (MCEETYA), *http://www.mceetya.edu.au/public/public.htm*.
8. The pack contains 5 modules: planning for the future, ethical investment, e-commerce, genetics and insurance, and taking out a loan.
9. To give just a few examples, Austria has the Association of the Austrian Actuarial College, the Austrian Insurance Industry Training Centre and the Austrian Association of Insurance Experts; in Spain, the Universidad Pontificia de Salamanca has created the Faculty of Insurance, Legal and Business Science in Madrid; while Switzerland has courses in insurance offered by the Swiss Professional Education Association and the Swiss Insurance Institute.
10. See *www.insureuonline.org*.
11. For more information see the website of the NIC : *www.cosumo@inc.es*.
12. See *www.understandingmoney.gov.au*.
13. See also Mission Delmas-Marselet, (2005).
14. For example, CCAMIP in France, BAFin in Germany, the Insurance Commission in Israel, ISVAP in Italy, CNSF in Mexico, AFM in the Netherlands, DGSFP in Spain, the financial services supervisory authority in South Korea, the Federal Office of Private Insurance in Switzerland, the FSA in the United Kingdom and the National Association of Insurance Commissioners in the United States, are involved to varying extents in providing consumers with general information about risks, insurance and insurance products.
15. See for example the websites of the ISVAP in Italy, of the Insurance Commission hosted in the Ministry of Finance website in Israel, the FSA in the United Kingdom, CONDUSEF in Mexico, NAIC in the United States, the insurance commission in California at *www.insurance.ca.gov*.

16. See for example the websites of the FSA, the ABI, the NAIC and the German consumer association.

17. The Weiss agency in the United States (*www.weissratings.com*), for example, provides a free, online list of the insurers with the lowest ratings.

18. Tax incentives for private health insurance exist in Australia, Austria, Belgium, Canada, France, Germany, Greece, Ireland, Italy, Luxembourg, Mexico, the Netherlands, Portugal, Spain and the United States. For further details, see OECD (2004a).

19. In Finland, a government working party has recommended that all investment funds and investment service providers should be governed by the same regulations so that consumers have access to comparable information about the costs and risks of the various long-term savings products on the market. In Canada, the Canadian Council of Insurance Regulators is tasked with harmonising and simplifying insurance regulations between provinces states and promoting standards for the information to be provided to consumers. In the United States, the NAIC is carrying out projects to harmonise certain aspects of insurance regulations at the federal level. Within the European Union, the ongoing harmonisation of regulations relating to the role of intermediaries and consumer information about insurance policies and the coverage they provide is helping to make the market easier for consumers to understand.

20. The term "insurance market players" hereinafter broadly refers to covers underwriters and sellers of insurance products including: traditional insurance underwriters (insurance companies, mutuals and provident societies) traditional insurance intermediaries (brokers and agents) as well as non-conventional distributors such as banks as well as other kind non-financial sellers (*e.g.* car dealers, supermarkets, travel agencies, etc.). The terminology also encompasses diverse types of distribution channels including the most modern, specifically the *i.e.* internet, cell phones, phone, etc.

21. For an overview of the role of intermediaries, see the relevant section of the World Federation of Insurance Intermediaries website at *www.wfii.org*.

22. For instance, see Mitchell, J. (2003).

23. For example, in Belgium, associations representing the insurance industry and intermediaries (*i.e.* Febravel, FVF UPCA and Assuralia) have developed a code of conduct relating to advertisement and information on life insurance products. In Canada, the Canadian Life and Health Insurance Association has drawn up codes of good practice. In Greece, the industry has also developed codes of ethics for the provision of simple and comprehensible information on insurance contracts. In Spain, the General Council of Associations of Insurance Intermediaries and the Spanish Association of Insurers (UNESPA) jointly drafted and adopted in March 2001 a code of good practice between insurance brokers and insurers that establishes greater transparency in their dealings. The UNESPA has also developed a guide specifically devoted to selling practices in order to ensure appropriate understanding by consumers of the describing the functioning of the contract (*e.g.* basic understanding of the coverage and possible exclusion of the contract, its prices, understanding of the role played by the age and gender factors in covering certain risks, understanding of the importance of appropriately filling in health questionnaires, and how this information is being used by insurers). In the UK, the ABI has developed codes of good practice for different types of policies (*i.e.* life, long-term care, travel and mortgage insurance policy etc.). The General Insurance Standards Council has also introduced rules of conduct for the entire sector

(including good sales practice). These are the rules that the UK ombudsman looks at when investigating consumer complaints. In the United States, the Insurance Marketplace Standards Association has introduced good practices and an ethical code in the life insurance sector, which its members undertake to comply with.

24. For example: the National Insurance Brokers Association in Australia.

25. See Annex I.3, for more details on the information note developed in this respect by representatives of the industry in Belgium.

26. This is also suggested by the OECD Recommendation on Principles and Good Practices for Financial Education and Awareness (2005).

27. Such associations include the Australian Bankers' Association (*www.bankers.asn.au*), which has developed a specific booklet untitled Smarter Insurance, the Austrian Association of Insurance Companies in Austria, the Association of Insurance Companies in Greece, the Association of Damage Casualty Insurers (GVD) and the insurance industry information centre in Germany, the UNESPA in Spain, the Association of Life Insurers and the Non-Life Insurance Association in South Korea, the American Insurance Association and National Association of Mutual Insurance Companies in the United States, the Federation of Finnish Insurers in Finland, the Association of Life Insurers and the General Insurance Association of Japan, the Association of British Insurers in the United Kingdom, and the Swiss Insurance Association in Switzerland.

28. For example, the Insurance Bureau of Canada and the Canadian Life and Health Insurance Association (CLHIA), the insurance association information centre in Germany and the consumer association website (*www.stiftung-warentest.de*), the FFSA information centre in France and, the insurance association websites in Japan.

29. For example in Germany, South Korea, France, the UK and Switzerland.

30. US insurance company trade associations, such as the American Insurance Association, provide information to the general public, policymakers and the news media about risk, insurer practices and specific public policy issues such as natural catastrophes, obtaining full coverage, auto and home safety and the use of credit information.

31. Such as the National Insurance Brokers Association in Australia, the Insurance Brokers Association of Canada, the Irish Brokers Association and the British Insurance Brokers Association, etc.

32. Like the Consumer Agency in Finland and "Which?" in the UK.

33. Such as *www.insure.com*, the Health Insurance Information Association (*www.healthinsurance.info.net*) and the Long Term Care Association (*www.mr.ltc.com*) in the USA.

34. See *www.benefitsolutions.co.uk*.

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Chapter 4

Programmes and Tools to Enhance Risk Awareness and Education on Insurance Issues

1. Programmes targeting severe risks and vulnerable populations

Information designed to raise awareness on risks and on the importance of protection against severe risks – including through insurance – is often a matter for governments, at least for catastrophic risk and long-term risks (*e.g.* life insurance for retirement, long-term care and invalidity) that people are generally unable to understand and manage in a sensible and sustainable way. In Mexico, the National Natural Disaster Fund (FONDEN) organises disaster risk prevention and security campaigns. In Israel, some awareness campaigns on prevention measures and coverage against earthquakes and more importantly terrorism risks are encouraged. Recently, the Israeli government appointed a Committee to advise the government and the public on how to better cope with natural disasters. One of the core issues is the importance of appropriate insurance and how to achieve this goal. In Spain, the *Consorcio de Compensacion de Seguros* (CCS) is committed to providing compensation for losses incurred as a result of extraordinary risks. In this context, it is currently considering programmes aimed to better prevent and reduce losses. This project would include the launch of preventive measures and campaigns. In the US, especially after the last series of hurricanes and consecutive floods, media campaign and coverage has been intensive notably to enhance population awareness of the needs for an appropriate coverage against catastrophic risks including floods.[1]

Associations of insurance companies may also run information and prevention programmes of this type. In Japan, for example, the General Insurance Association of Japan regularly conducts large-scale prevention campaigns to increase consumer awareness of earthquake risks and their need for protection against them. In Germany, the GDV (insurance association) is involved in road safety programmes and has also created a website for children, using games to explain basic safety measures. In France, a specialist association, *Assureurs, Prévention, Santé*, is helping to create health risk prevention programmes and has recently launched a campaign on child obesity. In 2000, after a series of floods and other natural disasters, the FFSA and GEMA (*Groupement des Enterprises Mutuelles d'Assurance*) got together to create an association, *Mission risques naturels*, to raise awareness of natural risks and provide technical input to the prevention policy. In the UK, the ABI website provides general advice on flooding. Moreover, the ABI works in collaboration with the Environment Agency to support the insurance industry's commitment to continue offering flood risk insurance to the vast majority of homes and businesses in flood risk areas. In the US, the America's Health Insurance Plans, an association of health insurers, has launched a wide strategy and elaborated recommendations seeking to enhance awareness on health risks and on the need for strengthened health literacy of consumers.[2]

As mentioned earlier, some information campaigns target specific segments of the population or seek to promote certain policies. In Finland, information programmes targeting young adults and immigrants have been introduced in certain regions. In addition, the Finnish consumer agency has created a set of brochures on financial management and protection at key times involving a change of situation, such as buying a first home, retirement or unemployment, death and divorce. In Germany, the family ministry, the consumer association and banking and insurance industry associations have created a website[3] designed to help students improve their financial knowledge. The portal includes general information about insurance products. Small businesses and their unique insurance needs are often the target of specific programmes, like the one developed by the FSA in the United Kingdom or the NAIC in the United States.

2. Role of the media, traditional tools and modern communication devices

The various players vie with each other in their creative use of media to effectively circulate information, seek proximity and interact with consumers. Traditional paper media (*i.e.* leaflets, brochures, guides and publications) are complemented by poster campaigns, advertising and prevention campaigns in the media and, increasingly, by the internet, mobile phone, call centres, helpdesks and direct advice centres. Events like lectures, conferences and speeches are also designed to involve consumers more. It is worth stressing that the quantity of information available is probably less important than ensuring that it is in clear language, that the target population can understand it and that access to information is as simple and straightforward as possible. Various means are used or planned to that end.

A range of public bodies, especially supervisory authorities, and private players, issue printed materials such as brochures, guides, periodicals and statistics. The German insurance industry information centre produces a series of guides called "*Zukunft Klipp und Klar*" targeting specific subgroups of the population (*i.e.* families, single people, senior citizens and working people), while the association of insurance companies has published clear and well-illustrated brochures describing situations in which insurance is important, its advantages and contact points where readers can obtain further information before taking out a policy. The Canadian Council of Insurance

Regulators (CCIR) is involved in a project that seeks to promote good practices in the selling of products and services in the financial sector. One key element of the project is the publication of a consumer's guide to financial transactions. In Italy in 2004, a practical guide to insurance was published as a pull-out supplement to a newspaper with extensive nationwide circulation, providing non-technical information in simple language about the most common insurance products (motor insurance, life insurance and pension). In the Netherlands, a leaflet has been available to consumers since 2002, providing objective, comparable and precise information about the main characteristics of complex insurance products. In Poland, the insurance ombudsman publishes an insurance magazine, sent to consumer associations, insurance companies, universities and private individuals. In Japan, the central council for information on financial services published a guide to financial education in March 2005.

Mainstream media (*i.e.* TV, radio, press and posters) have become natural channels for prevention campaigns targeting certain risks and promotion campaigns for certain types of essential cover (motor, pension and long term care, etc.) or to increase general awareness of the importance of financial education. The Polish insurance chamber's strategy is particularly instructive in this respect, seeking to inform and sensitise journalists to the world of insurance with the aim of raising the overall level of information about insurance within the media as a whole. A set of initiatives has been under-way since 2003, including specific meetings for journalists with major insurance companies (*e.g.*, ING *Nationale Nederlanden*, TUnZ SA, PZU SA). In Australia, the creation of the Financial Literacy Foundation, the launching of its website and the organisation of a first Financial Literacy Forum held in Canberra in September 2005[4] has contributed to enhance awareness and media coverage on financial education issues.

The internet has become another channel for information, comparison and specialist advice and is used by frontline public and private bodies in most OECD countries.[5] Most of the supervisory authorities or ministries directly involved in regulating the insurance sector have a website, and often a subsite[6] dedicated to consumer information and/or education, providing information about products, providers and regulations (see Table 4.1). Likewise, the insurance industry and consumer associations are making an extensive use of internet possibilities. The chief attraction of the internet is as a means of providing a wide range of information to consumers interactively and comparing products from different providers while adapting to the consumer's profile.

Some authorities and other bodies, especially ombudsmen and consumer associations, also provide call centres and helpdesks.[7]

Box 4.1. **Selected websites**

In Mexico, CONDUSEF is tasked with promoting financial education, regarded as a means of prevention, enabling consumers to understand unclear contracts or doubtful transactions. Through its website,[1] the commission explains various types of insurance contracts and coverage proposed by the insurance market. It also provides information about insurance agents and approval procedures for intermediaries, together with tables comparing, among other things, motor and health insurance prices, insurable risks and exclusions. The CNSF, the financial services regulator, also has a website[2] that provides information and data about the situation of insurance companies.

In Italy, part of the ISVAP site[3] is dedicated to consumer information, relating to life assurance and compulsory motor TPL insurance. The life assurance subsite includes a guide which gives consumers detailed information about the main features of such contracts in simple and clear language.

In Spain, the DGSFP website[4] includes comprehensive information on existing insurance regulation relevant for consumers, information about the industry (insurers, intermediaries and distribution channels). Information on the coverage provided by the CCS is provided through its own website.[5]

The Canadian Life and Health Insurance Association has created a subsite on its portal,[6] offering assistance to consumers and providing both information in the form of a guide and tables and personalised online or phone assistance.

In the US, the NAIC website[7] hosts a "Get smart about insurance" week, which takes place on an annual basis. It is an opportunity for consumers to test their knowledge about different types of policy (*e.g.*, motor, life, home and health), to review their coverage needs and assess their current policies, to receive advice about cancelling or changing a policy and to obtain comprehensive information about products, insurance terminology, providers, and so on. NAIC comprehensive subsite dedicated to consumers (InsureU[8]) also provides them with key advice/tips (compare/shop around, get information on the company, assess one's needs once a year), evaluates needs according to life style and offers guides for each type of insurance as well as quizzes and training to enhance consumers' capacity and knowledge of risk and insurance.

1. *www.condusef.gob.mx*
2. *www.cnsf.gob.mx*
3. *www.isvap.it*
4. *www.dgsfp.meh.es*
5. *www.consorseguros.es*
6. *www.clhia.ca*
7. *www.naic.org/consumer _home.htm*
8. *www.insureuonline.org*

3. Evaluation of programmes

Research into the impact of programmes to enhance risk awareness and insurance literacy and capability is considered by most countries as essential to avoid unnecessary expenses and ensure a fine-tuning of any new policy measures put in place. Yet, the survey of OECD experience also suggests that for the time being, little analysis of how such programmes perform is carried out.[8] The awareness of education needs in insurance is relatively new. Consequently few comprehensive programmes coordinating main stakeholders' initiatives relative to insurance education have been introduced and, when they have, they are often too recent to be evaluated. There are plans in the Netherlands, for example, for an independent research body to measure the effectiveness of a financial information factsheet (including insurance) after two years. The regulation of financial services and their advisory role will also be assessed after a five-year period. Likewise, in the UK the comprehensive programme "Building financial capability" and its impact should be evaluated after four to five years. Regular evaluations of whether the benefits of each element of the programme are being delivered are planned, as well as the publication of regular progress reports so that all stakeholders may take note of the difference that the programme is making.

Some types of assessment of the use, if not the impact, of programmes are often provided by the record of the number of users of dedicated websites established by insurance regulatory authorities. For instance, in Israel, the effectiveness of information and media campaigns concerning the creation of the insurance commission website (hosted on the Ministry of Finance website) is monitored through the number of visitors to the website. The results show an increase in the use of the site especially when combined with advertising the site by the media (mainly through radio broadcasting). Similarly in the US, the programme InsureU established by NAIC is being monitored through the number of users of the website and the number of participants to the quizzes proposed on the website.

Notes

1. For further information on media coverage of flood risk in the US, see the Insurance Information Institute website: *www.iii.org* and notably Robert P. Hartwig, (2006).
2. For more details see the AHIP website: *www.ahip.org*.
3. *www.unterrichtshilfe-finanzkompetenz.de*.
4. The Forum was held at the Parliament House on Friday 16 September 2005 and gathered the advisory board of the Foundation, Australian government's representatives, business, education and community sector leaders to be on hand to lend their expertise. The Financial Literacy Forum explored the key elements of

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the Government's strategy to ensure a nationally coordinated approach to achieving its commitment to help all Australians increase their financial knowledge, and better understand the options and choices they can make in using and managing their money.

5. It should however be noted that population access to the internet remains limited including in OECD countries; and notably for the most deprived segments of the population.

6. For example in Belgium, France, Germany, Israel, Italy, Mexico, South Korea, Spain, Switzerland, the United Kingdom and the United States.

7. For instance the Public Unit Support established by the DGSFP in Spain.

8. Other examples of assessment of limited scope could be mentioned. In Japan, for example, where the FSA carries out an opinion poll of teachers concerning the manuals distributed to students. Likewise, the Japan Institute of Life Insurance and the General Insurance Association of Japan carried out subsequent assessments of their various programmes. Besides, in the UK, the Department of Work and Pensions has commissioned ECOTEC Research and Consulting Ltd. in order to review the current provision and effectiveness of financial education throughout the UK (details of these works and results may be found at *www.dwp.gov.uk/publications*, Informed Choices for working and savings). An audit of resources for financial education and *inter alia* of the skills of teaching adults was also carried out by the *Basic Skills Agency* (see *www.money-bsa.uk*).

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Conclusion

In most OECD and non-OECD member countries, current generations are faced or will have to face increased needs for coverage and saving to cope with new and increasing large-scale risks and risks (related to pension, health and savings) that are no longer or less covered by public, collective, corporate or family schemes and solidarity. Against this backdrop, solutions and possibilities offered by insurance market players are attractive. Yet, they require a higher level of awareness, knowledge, understanding and capacity from individuals as they often involve the subscription of sophisticated products from various distributors and may also imply a greater risk-transfer on households. Actually, consumers are often insufficiently literate and ill equipped to be able to properly bear these new responsibilities and make appropriate choices. This relatively poor capability on insurance issues is reflected in surveys' outcomes, in the case of mis-selling and more worrisome in the potential dramatic consequences of lack or inappropriate coverage when adverse events occur.

The need for enhanced risk awareness and education on insurance issues seems to be unequally identified and addressed by the various stakeholders and by public opinion. Receptivity to the issues is increasing in many OECD member and non-member countries, an assertion borne out by the number of public and private initiatives to that effect. Yet, even when inventive projects and programmes are launched, they often lack overall coherence and assessment of their actual impact on consumers, the market and the economy. Furthermore, the regulatory prudential framework could be further harmonised between providers and between jurisdictions and better adapted to the emergence of new policies products and insurance providers. Amongst other things, such changes would help to make the insurance market more transparent and increase consumer confidence.

In this context, the OECD Recommendation on "Good Practices for Enhanced Risk Awareness and Education on Insurance Issues" contained in the appendix to this report, takes account of these challenges, of the relevant experiences of certain countries and of possible shortcomings to offer alternatives in order to raise the level of risk awareness and education in insurance of the public at large.

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Australian Bankers' Association: *www.bankers.asn.au*.

Ministerial Council on Education, Employment, Training and Youth Affairs (MCEETYA): *www.mceetya.edu.au/public/public.htm*.

Understanding Money: *www.understandingmoney.gov.au*.

Canada

The Canadian Life and Health Insurance Association (CLHIA): *www.clhia.ca*.

Germany

Stiftung Warentest (German consumer association): *www.stiftung-warentest.de*.

Unterrichtshilfe Finanzkompetenz: *www.unterrichtshilfe-finanzkompetenz.de.*

Italy

Istituto per la vigilanza sulle assicurazioni private e di interesse collettivo (ISVAP): *www.isvap.it*.

Korea

Korea Insurance Development Institute (KIDI): *www.kidi.or.kr.*

Mexico

Comisión Nacional para la Protección y Defensa de los Usuarios de Servicios Financieros (Condusef): *www.condusef.gob.mx*.

Comisión Nacional de Seguros y Fianzas : *www.cnsf.gob.mx*.

United Kingdom

Basic Skills Agency (BSA): *www.money-bsa.uk*.

AEGON Benefit Solutions: *www.benefitsolutions.co.uk*.

Department for Work and Pensions Resource Center: *www.dwp.gov.uk/publications*.

Financial Services Authority (FSA): *www.fsa.org*.

United States

America's Health Insurance Plans (AHIP): *www.ahip.org.*

Health Insurance Information Association: *www.healthinsurance.info.net*.

Insurance Commission in California: *www.insurance.ca.gov*.

Insure (consumer insurance information service): *www.insure.com*.

Long Term Care Association: *www.mr.ltc.com*.

National Association of Insurance Commissioners (NAIC): *www.naic.org*.

Insure U: *www.insureuonline.org*.

US Treasury: *www.treas.gov/offices/domestic-finance/financial-institution/fin-education*.

World Federation of Insurance Intermediaries: *www.wfii.org*.

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ANNEX I.1

Some National Programmes Aimed at Strengthening Financial Education

The UK Financial Services Authority[1] (FSA) initiative entitled "Treating Consumers Fairly"[2] should first be mentioned. At the address of the insurance industry, this project includes a strategy for assessing problems of the market arising from information asymmetry and introduces processes including self-assessment by companies, with the extensive involvement of the various stakeholders. Furthermore, within a more global and long-term approach, the FSA has also launched in November 2003, a programme called "Building Financial Capability",[3] headed by a steering committee – comprised of the government, the financial services industry, corporate representatives, trade unions, media, consumers associations as well as the associative sector. This project is designed to improve overall financial education including making individuals aware of the role of insurance in protecting against sudden and unforeseeable accidents. The programme has started with a survey of 5 300 adults across the UK to create a comprehensive picture of UK citizens' financial literacy level.

In the US, The Department of the Treasury[4] is a leader in promoting financial education. The US Treasury established the Office of Financial Education in May of 2002. The Office works to promote access to financial education tools that can help all Americans make wiser choices specific to personal financial management, with an emphasis on saving, credit management, home ownership and retirement planning. The Office also coordinates the efforts of the Financial Literacy and Education Commission, a group chaired by the Secretary of Treasury and composed of representatives from 20 federal departments, agencies and commissions, which work to improve financial literacy and education for people throughout the United States.

Other jurisdictions have specific plans to coordinate the viewpoint and actions of several public and private stakeholders in financial education, generally through supervisory authorities or specialist committees. In Australia, the Financial Literacy Foundation created in June 2005 within the department of the Treasury is responsible for many new initiatives including: a national information and awareness campaign, the creation of a financial literacy website,[5] in partnership with the main public and private stakeholders, the facilitation of financial literacy programmes in schools and the workplace and financial literacy research in order to guide future strategies.

In Japan, a liaison committee with members drawn from the government (FSA and other administrations and agencies) and the private sector (banks, investment firms, insurers) has been set up to assess and improve the level of financial education of the population. A private advisory group to the financial services ministry, called the Financial and Economic Education Discussion Committee, has been formed to propose strategic guidelines.

In France, the Financial Sector Consultative Committee (CCSF), an official body whose members include, insurance companies and intermediaries, consumer associations and representatives of banks amongst other financial experts, has been established to facilitate dialogue between professionals and their customers. As such, it has been tasked with producing recommendations on issues challenging the insurance sector.[6]

In the Netherlands a platform to raise financial awareness of Dutch consumers, CentiQ, was set up at the beginning of November 2006. CentiQ is a collaboration of organizations within the financial sector, the government, consumer organizations and the scientific community who work together within CentiQ to deal with financial decisions of Dutch consumers.[7] CentiQ's objectives are to ensure that financial consumers are well informed, educated, and interested, play an active role in the financial markets and can confidently make informed financial decisions. The increasing number of complex financial products and the fact that consumers have their own responsibility to make financial choices was one of the reasons to set up CentiQ. Another reason is the increase of debts among groups of consumers and the increase of the amount of these debts. At the moment five project groups including budgeting, future perspectives and education are developing several initiatives to empower informed financial decisions by Dutch consumers. The project group investigates the financial understanding of the consumer, including how to enhance the financial awareness and motivation of consumers. The project group communication deals with the internal and external communication of CentiQ.

In other countries,[8] it is mainly the supervisory authorities or umbrella authorities in the case of federations,[9] that are at least partly responsible for initiatives and for assessing financial education needs in the insurance sector.

Other ministries or independent bodies like ombudsmen,[10] chambers of commerce[11] or even some insurance guarantee funds (Poland) may sometimes also be involved in various programmes.

Notes

1. The objective of promoting public understanding of financial systems is one of the FSA's statutory objectives. It covers understanding insurance (*i.e.* products, providers and the market).
2. Further information on this project is also available in the publications: "Treating Customers Fairly – progress and the next step" July 2004 and "Treating Customers Fairly – building on progress" (July 2005) and downloadable from the FSA website: *www.fsa.gov.uk*.
3. A document explaining the project of the working party on the subject is available on the FSA website: *www.fsa.gov.uk/financial_capability/*.
4. For more information on these activities see the US treasury website at *www.treas.gov/offices/domestic-finance/financial-institution/fin-education/*.
5. See *www.understandingmoney.gov.au*.
6. Including consumer information, borrower insurance and conditions for cancelling policies.
7. see also *www.minfin.nl/centiq*.
8. Such as Italy (ISVAP) and Mexico (CNSF).
9. Like the Canadian Council of Insurance Regulators (CCIR) or the National Association of Insurance Commissioners (NAIC) in the USA.
10. For example in Austria, Finland, Germany, Greece, Poland and the UK.
11. Especially in Canada, Germany and Poland.

ANNEX I.2

Mediation and Redress Mechanisms in Selected OECD Countries

Mediator and ombudsman have been established *in* Austria, Finland, Germany, Greece, Poland and the United Kingdom. In Poland, the insurance ombudsman has a particular responsibility for protecting consumers in a market where competition alone was considered insufficient to develop customer service. The ombudsman's function is to consider complaints and appeals and provide advice on relations between insurers (or pension funds) and their clients.

In France, the *Bureau des Relations avec les Assurés* (BRA) is tasked with processing, analysing and dealing with complaints and monitoring policies. As such it may ask an undertaking to reconsider a case, complying with its statutory or contractual obligations, but it has no powers of coercion. More broadly, the BRA also monitors and analyses insurance policies and observes market practices in the selling and performance of contracts.

Spanish regulation requires insurers, like other financial institutions, to establish a customer support department or services which are in charge of addressing customers' complaints; insurers may also designate a "*Defensor del cliente*" (Customer's defender). Internal guidelines approved by the Directorate General of Insurance and Pension Funds (DGSPF) should govern customer support activities and relation between the insurer and customers. Moreover, these departments should submit an annual explanatory report on developments. A summary of the main outcomes of this report should be included in the insurer's annual report. The DGSPF has also created a public service unit which is part of its overall complaint services. This unit provides both face-to-face and phone assistance to consumers submitting inquiries or who need to clarify any doubts regarding insurance policies.

In addition to such measures, in OECD countries, regulations and case law protect consumer/customer interests in the event of commercial

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malpractice, inaccurate or misleading information provided on policy subscriptions and of fraud. In most OECD countries, consumers are protected against inappropriate advice and the mis-selling of products by intermediaries and providers. In the European Union, insurers are responsible for the actions of their agents, whether intentional or negligent. Consumers may therefore seek damages from a solvent party. Intermediaries who give poor advice are directly liable to the consumer.*

In most countries, consumers/customers with a grievance against an insurance provider or intermediary can seek redress or bring a complaint before the supervisory authority or an independent public agency like Mexico's CONDUSEF. In Iceland, for example, the Complaints Committee can be accessed directly from the supervisory authority's website. In Italy, ISVAP's consumer protection division is responsible for consumer complaints relating to both life and non-life insurance and can be accessed from the ISVAP website. In the US, the NAIC website seeks to raise consumers' awareness on fraudulent insurance and provides an online filing of complaints.

* Under the European Mediation Directive, brokers must hold professional indemnity insurance for at least € 1 million per claim and € 1.5 million in aggregate each year for all claims.

ANNEX I.3

Selected Regulations on Information Disclosure on Insurance Products and Providers

Information on insurance products and policies: appropriate, timely and intelligible information

Most regulations in OECD countries stipulate the information that insurers are required to provide – including through their intermediaries – to consumers concerning policies and their terms and conditions before and after the subscription of the contract.

These requirements generally include the type of insurance, the scope of coverage, exclusions and other restrictions (*i.e.* deductible, ceiling, floor, and coinsurance), guarantees if any, the amount of the premium, the expiry date, conditions for renewal or cancellation,[1] how the policy is triggered, how to make a claim and the insurer's and subscriber's rights and obligations (right of cancellation, right of redress). As a rule, these obligations continue throughout the lifetime of the policy. The policyholder must be notified of any material change to the initial information (*i.e.* any change that has consequences, such as a change in the amount of the premium or the coverage). In addition, several countries have recently tightened up regulations relating to the information about insurance products and policies to be provided to consumers,[2] or have considered doing so. Implementation of the Directive in the EU member countries implies that providers and sellers of insurance policies should henceforth also inform consumers of all commissions, administrative charges and taxes to which they are liable in addition to the insurance premium. The regulations also state that mandatory information should be presented in such a way that consumers can compare offers from different providers (in terms of commission, charges and premiums). As a rule, the detail of these obligations also differs according to the type of policy concerned (life insurance with or without guarantees, non-life, casualty/property, liability, etc.). In Belgium, in March 2006, following the enforcement of a new regulation to comply with the

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EU directive on information duties of insurance distributors and intermediaries, associations representing the insurance industry have developed three informative notes approved by the CBA (respectively on life insurance, saving and investment through life insurance products and non life insurance) to guide intermediaries in their informative and advisory role.

Regulations in OECD countries often impose more specific obligations with regard to life insurance. Within the European Union, the life Directive (Article 34, paras. 52 and 53 of the preamble, Article 47) introduces an obligation to provide certain information but does not state in what form. Article 2.4 of the Settlement Finality Directive stipulates that pre-contractual information must be in conformity with the contractual obligations resulting from the applicable law. Most of the time, the obligations imposed by these two directives have been backed up by the domestic legislation of EU member States.

In Belgium, France,[3] Italy and Spain, regulations and self-regulation state that the insurer should provide an information note or letter[4] on subscription, describing the main characteristics of the policy and all the costs and charges payable to the insurance company (directly or in respect of unit-linked account). Additional obligations apply to unit-linked contracts, for example concerning the types of investment assets. The law on supervision in Germany and the Civil Code in the Slovak Republic define the information to be provided by insurers. Policyholders with life and accident insurance must be provided with information concerning the calculation of redemption value bonuses, the minimum amount guaranteed, the conditions of capital guarantees (if any) and the relevant tax treatment. In Italy, detailed information about the benefits, characteristics and financial risks of insurance products of an investment nature are required. The regulations also provide that policies must include a statement making it clear that past profit or interest is not a guide to future profit or interest. In the UK, measures in effect since 1 May 2004 have made the management of unit-linked policies more transparent. Since then, life insurers issue a document named "principles and practices of financial management" which sketches out the way funds are run and comprises information on the reporting of profits, bonuses and on the investment strategy of these policies. In New Zealand, insurers must provide potential consumers with an investment statement assisting non-experts in deciding whether or not to take out the proposed life insurance policy.

Most of this legislation also includes an obligation to continue providing information, especially regarding the performance of the policy. In Germany,[5] France, Italy and Poland,[6] insurers must inform policyholders at least once a year of the amount of profits, the redemption value, bonuses, the interest rate guaranteed by the policy (in France beyond a certain threshold of mathematical reserves), the rate of profit-sharing and the yield on assets linked to the concerned policies.

Regulations for non-life insurance are often less comprehensive and/or up to date. In the UK, the FSA has regulated the non-life sector only since January 2005. A new regulation requires clearer information about policies before they are sold, obligating insurers to communicate to future customers, information and the risks linked to the concerned policies. In Germany, in cases where private health insurance replaces the social security system, there is a statutory requirement to provide information about premium increases due to rising claims, the possibilities of limiting premiums after a certain age and exclusion (generally statutory) from coverage at an advanced age. In Italy, under the regulations defining appropriate information for motor insurance, insurers are required to provide potential policyholders with a free estimate adapted to their profile, information about the proposed coverage and the amount of premiums. The estimate is binding on the insurer if the policy is taken out.

In many OECD countries, requirements on the readability of contracts for non-experts consumers are also developed. For example, Article 36 of Mexico's insurance law states that insurance contracts should be drawn up in Spanish and in legible type. The Polish law likewise establishes that contracts and their terms and conditions should be drawn up and presented in a way that is easy to understand. Similarly, in Greece and Spain, requirements have been put forward to ensure that relevant, accurate and reliable information is provided in clear and comprehensible language. New regulations in Florida serve to increase the transparency of the terminology used in loss policies with the aim of clarifying the real level of coverage of hurricane damage.

Information about insurance providers

Information on insurance companies are considered important for consumers. This type of information notably enables consumers to assess the soundness of insurer undertakings and whether insurers' particular management processes and handlings of claims and disputes fit their needs and/or preferences.

Some OECD countries have also introduced regulations concerning information to be provided by insurers or their intermediaries on their situation, such as the name, legal situation (legal form, governing law), geographical, financial and economic situation of the insurer with which the policy is to be taken out. There is also an obligation to continue providing information, so that policyholders are informed of any material change. Information is also provided in the annual reports generally available on insurers' websites and under a range of additional requirements. Similarly, information about insurance products provided by countries, such as Israel, are increasingly encouraging insurance companies to provide such information on their company (notably through the annual report) in a way that may be easily understood by the insured and policyholders.

In South Korea, for example, the law on insurance activities requires insurers to inform potential consumers about their financial situation. In Japan, the insurance business law states that insurance companies must produce and circulate business reports that describe the state of their activities and assets. They are also urged to provide any additional information that could be useful to policyholders. These reports generally contain both the statutory and voluntary information provided by the companies on the basis of standards drawn up by insurance industry associations. In New Zealand, under the 1994 Insurance Act insurers are required to provide a full report of their financial position and on the ratings given by government-approved agencies. The report also includes information about the insurer's financial obligations towards consumers.

Other types of information on the insurer such as whether it is registered with the ombudsman,[7] if any, could be relevant to consumers when deciding whether or not to subscribe to a policy proposed by a provider.

Notes

1. In France, following the law of 28 January 2005 on consumer protection, the CCSF (a financial service advisory body) has examined the conditions under which policyholders are informed of their option of terminating tacitly renewable policies.
2. Reform of insurance policy law in Switzerland, recent amendments to German law on supervision concerning consumer information, and the work done by the advisory body in France created for that purpose among others. In the UK, a consultative document prepared by the FSA: "Informing Customers: product disclosure at the point of sale" details the information that should be transmitted to the customers before the subscription of any contract.
3. Financial Security Act, 2003.
4. According to Circular 506/2003 in Italy, a potential subscriber to a life assurance policy, for example, must be provided with an estimate of benefits and premiums during the lifetime of the policy, calculated on the basis of a 4.5% yield. However, these estimates based on yield assumptions are not subsequently binding on the insurer. In Spain, such note should contain the following information: name of the insurer, its legal status and address, definition of guarantee and options offered, contract duration, conditions, terms and maturity dates for premiums, methods applied in the determination of profit-sharing allocation, surrender value, existence and nature of guarantees, premiums associated with the guarantees, definition of units of accounts (if relevant) and, applicable tax treatment.
5. Amendments to the law on supervision.
6. Law of 22 May 2003 on insurance activities.
7. It is a requirement in the UK.

ANNEX I.4

Regulation and Self-regulation of Intermediaries' Roles and Responsibilities in Selected OECD Countries

Competence, continuous training and professionalism

In several countries, intermediaries and distributors of insurance products alike are subject to obligations relating to competence, professionalism and continuous training. Under the Insurance Mediation Directive (Directive 2002/92/EC), which should have been transposed into the domestic legislation of the 25 EU Member States by 2005, only qualified staff may have direct contact with potential consumers and customers. Before the Directive was transposed, in Italy, for example, national circulars containing similar obligations were issued. The distribution agreements also stated that operators in other sectors should ensure that practices complied with the obligations imposed by the ISVAP (and now the directive). In addition, such operators may sell only basic insurance policies. The Swedish law on financial advice and the Dutch law on financial services also state that financial advisors must have the necessary skills and experience.

Ethics and commercial neutrality

The provision of advice and information by intermediaries directly linked or independent from insurers (*i.e.* brokers) raises the question of the confusion that may arise between objective information and product advertising or promotion. For that reason, the regulations in a number of countries state that the advice provided by insurance companies or intermediaries must be easily distinguishable from promotion. In Belgium for instance, associations of insurance market players have elaborated a code of conduct – which took effect in January 2007 – for advertisement and information on life insurance products (available on the websites of associations). This code of conduct establishes a

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share of responsibilities between the insurer and the intermediary regarding the compliance of advertisement and promotion materials. It also details the content of the information that should be made available about life insurance products through advertisement depending on the characteristics of the promotion (possibility to subscribe immediately or not). In Italy, advertising for insurance products through "usual communication media" (*i.e.* press, radio and TV) and "new communication media" (*i.e.* internet and e-mail) must be easily distinguishable and clearly identifiable by potential consumers.[1] In France, misleading advertising is a criminal offence under the Consumer Code[2] and the supervisory authority has a right to inspect documents issued by insurance undertakings. Regulations typically require that insurers check the validity of advertisement materials used by their intermediaries with respect to insurance policies. Similarly in Israel, if found that an insurance company or broker mislead the insured then the company can be fined, in extreme situations there can be criminal prosecution of the perpetrators of the mis-selling. In Spain, any misleading or false publicity – defined as any publicity that misguides consumers or discredits competing businesses and goes against the rules of faire business practices – is considered illicit.

In addition, many OECD countries have introduced regulations to ensure that intermediaries having commercial links to insurance companies remain ethically neutral. New Zealand's regulations state that insurance distributors must act in good faith. Going further, under the Insurance Mediation Directive, intermediaries are required to state if their advice is based on impartial analysis of the market and whether they are under an exclusive contractual obligation to one or more insurance undertakings (if that is the case, at the subscriber's request they are required to provide the name of the insurers concerned or, if none, those with which they are likely to work). More specifically, UK intermediaries have a duty to report the share of their commission on each distributed product from each provider for commercial customers and, if requested, for individual customers. In the US in 2005 the NAIC added amendments to the Producer Licensing Model Act to address intermediaries/producers' disclosure of compensation. Already enacted in some states and introduced in several others, these amendments are designed to provide consumers with the information required to understand potential conflicts of interest an intermediary/producer may have because of the manner in which the insurance intermediary/producer is compensated.

Advice tailored to policyholders' needs

Most regulations provide that intermediaries or insurers directly selling insurance contracts are under an implicit obligation to offer their customers products that suit their exposure to risks and their financial situation and to inform them of the conditions for taking out a policy.

Under the terms of the Insurance Mediation Directive, insurance companies are required to assess their customers' financial and familial situation, determine their exposure to risk (and provide an explanation to the customer) and the level of risk they are prepared to assume. Intermediaries have a duty to provide potential customers with proposals of products adapted to their needs, as well as the relevant information so that they can properly assess the proposed insurance products. Under Articles 12.1 and 13.6 of the Directive, intermediaries must also provide interview reports in clear language in order to assertain whether consumers have indeed been advised in accordance with their needs. However, the Directive does not cover insurance providers directly selling insurance contracts which may pose problems of competitiveness between intermediaries and insurers in certain jurisdictions. Further, Belgium Insurance associations have elaborated informative notes approved by the CBA (for life insurance products, saving through life insurance devices and non-life insurance products). These notes provide specific and detailed guidance to intermediaries selling insurance products on the provision of accurate information on products, advice to consumers according to their needs and on the drafting of notes explaining the intermediary's advice to the consumer.

In Japan, the law stipulating the provision for the sale of financial products states that providers of financial products in general (including insurance companies) must give consumers explanations about matters relating to financial products and provide information about their sales practices. In addition, under the insurance business law, the promotion of such activities must be conducted in an appropriate manner, including the provision of impartial information to protect subscribers. The new Swiss law on insurance contracts implies that distributors of insurance products should make sure that consumers have properly understood the proposed insurance product(s).

Notes

1. It is also stipulated that any advertisement (press, radio or TV) must include the following words: "Please read the information memo and terms and conditions before subscribing the policy".
2. Insurers are prohibited from giving a misleading impressions of their financial solidity. For example, by highlighting for example the existence of guarantee funds intended to cover the commitments assumed by defaulting insurers in certain branches (especially third-party vehicle insurance).

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APPENDIX

OECD Recommendation on Good Practices for Enhanced Risk Awareness and Education on Insurance issues

Approved by the OECD Council on March 28, 2008

THE COUNCIL,

Having regard to Article 5(b) of the Convention on the Organisation for Economic Co-operation and Development of 14 December 1960;

Considering that in its "Recommendation on Principles and Good Practices for Financial Education and Awareness", the Council invited the Committee on Financial Markets and the Insurance and Private Pensions Committee to identify further good practices, *inter alia*, in the insurance education field;

Considering that the "Good Practices for Enhanced Risk Awareness and Education On Insurance Issues" set out in the Annex to this Recommendation (hereinafter referred to as "the Good Practices") complements the Principles and Good Practices for Financial Education and Awareness as a part of the overall project on financial education and that these Principles fully apply to the risk and insurance field;

Considering that the Good Practices have also been structured to ensure compatibility with the "Good Practices on Financial Education Relating to Private Pensions" developed in parallel by the Working Party on Private Pensions and the Insurance and Private Pensions Committee;

Considering that as a result of the combination of the increasing exposure of households to a wide range of traditional and emerging risks of an individual and collective nature and the reduction of public, corporate and solidarity funding for social and economic risks – whether related to health, income or ageing – households are directly responsible for deciding on the level of protection they wish to have as well as for the choice and management of adequate insurance products to cover these more severe risks;

Considering that insurance is an increasingly important source of protection for households and that this also enhances its impact on financial markets worldwide;

Considering that insurance, particularly in terms of products and providers, is one of the most complex, sophisticated and diverse fields in the financial sector;

Considering that not only do households consistently demonstrate low levels of financial literacy in general, but often lack sufficient awareness of the risks to which they are exposed, the ability to correctly assess their risk exposure, and good literacy, knowledge, and skills regarding insurance products and issues;

Considering that awareness and sufficient education and skills of households regarding risks and insurance issues is essential in order to facilitate their social and economic integration and their well-being, that this may also help to limit social public spending and that this is equally important for the development of sound, efficient and competitive insurance markets;

Considering that government and relevant public and private institutions in member countries and non-member economies may benefit from international guidance aimed at improving risk awareness and education on insurance issues;

Considering that the implementation of the Good Practices will have to take account, depending on national specificities, of the differing needs for awareness and education in the risk and insurance fields initiatives already undertaken, the stakeholders involved in the awareness and education process and the insurance regulatory and supervisory framework in place;

On the proposal of the Insurance and Private Pensions Committee:

RECOMMENDS that member Countries promote awareness and education in relation to risks and insurance issues and that, in this regard, governments and relevant public and private institutions take due account of and implement the Good Practices for Enhanced Risk Awareness and Education on Insurance Issues that are set out in the Annex to this Recommendation, of which they form an integral part.

INVITES member countries to disseminate these Good Practices among public and private sector institutions involved in financial awareness and education and in risk and insurance issues.

INVITES non-members to take due account of this Recommendation and to disseminate these good practices among public and private sector institutions that are involved in financial education and awareness and in risk and insurance issues.

INSTRUCTS the Insurance and Private Pensions Committee and the Committee on Financial Markets to exchange information on progress and experiences with respect to the implementation of this Recommendation, review that information and report to the Council not later than three years following its adoption, and, as appropriate, thereafter.

Good Practices for Enhanced Risk Awareness and Education on Insurance Issues

I. Risk awareness and education on insurance issues:[1] framework, definition and objectives

Taking into account national circumstances, risk awareness and education on insurance issues should be specifically encouraged, whether as part of the wider financial education effort or through distinct programmes. Such education programmes should be conducted in a coherent and transparent manner between main insurance stakeholders.[2]

Within this context, education on insurance issues should help to promote two core objectives:

- first, to heighten awareness and responsibility vis-à-vis the potential risks to which individuals are exposed and the means by which insurance can best cover those risks;
- second, to enable citizens to develop the knowledge, understanding, capacities and confidence needed to adequately appraise and understand the policies they require, to know where to look for additional information, objective advice or help if they need it, to take informed decisions about how to protect themselves and their relatives and to adopt a proactive and responsible behaviour as regards their risk exposure and insurance coverage.

Education on insurance issues should be taken into account within the insurance regulatory and supervisory framework and considered as a tool to enhance social and economic growth and well-being through reliable, transparent, efficient and competitive insurance markets along with prudential regulation and consumer protection. Education on insurance issues does not substitute but rather complements prudential regulation and policyholder protection. These are especially needed in the insurance sector to protect consumers' rights and to promote market efficiency and symmetrical information.

In this respect, specific measures to be considered within a jurisdiction concerning education on insurance issues should first take account of the regulatory framework, in particular as regards provision of quality information before, during and after the conclusion of contracts (disclosure rules), legal requirements or codes of conducts applicable to intermediaries or selling practices, as well as compulsory or voluntary mediation mechanisms in place.

II. Main stakeholders' responsibilities and roles

A. Public action

As a rule, public promotion of education on insurance issues, should be considered taking into account the jurisdictions' circumstances and policy choices, especially when lack of risk awareness and of insurance capabilities may involve particularly damaging consequences for citizens in the long run, and where no effective alternative (private) education initiatives are available or under consideration.

Governments' involvement in this education process should be mainly aimed at enhancing awareness of major risks and the need for adequate protection, including through various insurance instruments, and at enabling individuals to attain a sufficient level of knowledge, understanding and skills in order to adopt a responsible stance and make sensible choices as regards insurance issues.

In this respect, Governments should ensure that citizens are appropriately educated – possibly as part of school curricula – to be knowledgeable, capable and responsible in risk and insurance issues, as early as possible and on an on-going basis at key points through an individual's life (changes in family, occupational and property situation).

In this connection, a series of actions should be encouraged, including:

1. Promoting a "culture" of responsibility for personal protection, in particular by educating people about notions relating to risk, risk mitigation and compensation including possibilities offered by insurance tools and basic insurance mechanisms and products:
   - School curricula, in particular at the secondary level, should encompass more specific notions relating to risk and insurance (taught separately or within finance or economics classes), including, *inter alia*, basic insurance mechanisms and products and the major dynamics and components of the insurance market.
   - Higher-level studies and courses at universities and/or specialised institutes in the insurance field should be promoted and publicised through different communication approaches including competitions and special events.
   - Specialised teaching, training and prevention/information centres on risks and insurance issues should be promoted and/or developed.

– In this respect, educators should be appropriately qualified and trained to feel confident when instructing young people about risk and insurance issues.

2. Promoting and developing prevention and information programmes and campaigns regarding seriously damaging risks, vulnerable populations, innovative or complex insurance products and products implying a greater transfer of risks to individuals – such as unit-linked –, possible underinsurance, overlapping and/or over insurance, key contract clauses and conditions as well as applicable rights and obligations of consumers as regards insurance products and insurance market players.

   This promotion could involve the development of specific websites or a sub-site of the supervisory authority dedicated to consumers' information.

Public action should also consider the development, at the national level, of appropriate specialised structures – possibly within the framework of existing authorities- which would be in charge of promoting and coordinating risk awareness and education on insurance issues.

B. Role of insurance market players[3]

As a rule, the role and responsibilities of all insurance market players in the financial education process should be clearly defined and promoted and should become part of their good governance[4] with respect to their policyholders and/or customers. The accountability of insurance market players, and in particular of independent intermediaries, who represent their clients in this respect, should encompass both provision of accurate and quality information that can be distinguished from advertising and promotion, and objective and relevant advice commensurate with the risk exposure and needs of policyholders/customers.

Good selling practices should include the development of mechanisms for the assessment by sales staff or agents of clients' level of understanding, who should be adequately qualified and trained in this respect. This should particularly apply to complex insurance products, insurance products involving long-term commitments or commitments which represent a substantial proportion of current and future income or products which involve an important transfer of risks to policyholders.

Insurance market players (and/or their national associations) should be encouraged to create and develop internet sites to make general information on products and on companies freely available for consultation.

Insurance market players should be encouraged to engage in further initiatives to increase individuals' awareness of risks, of risk mitigation measures and of available coverage mechanisms, including insurance tools, as well as to provide unbiased information on insurance related issues. These activities should be clearly distinguished from marketing, promotion and advertising.

C. Role of other social and business partners

Depending on the country context, associations of insurance market players, consumers' associations, employers, trade unions, other NGOs and institutes specialised in insurance issues, should also contribute to financial education programmes.

For instance, these social and business partners should be encouraged to conduct surveys on the needs of consumers as regards risk awareness and education on insurance issues and on how consumers prefer to receive such information. They should endeavour to provide information, advice and training on insurance issues or to inform consumers or their employees (in the case of corporation) about where they can receive such help. They should also be encouraged to sponsor materials for public education programmes, provided that the information is sufficiently neutral and distributed under public oversight. Employers and/or trade unions in particular should play a role in making sure that employees know what types of occupational insurance coverage are available to and most suitable for them.

III. Programmes to raise risk awareness and strengthen education on insurance issues

A. Assessing needs and existing programmes

According to national circumstances, financial education initiatives in the insurance sector should make ongoing efforts, *inter alia*, to develop methodologies and criteria to assess the needs of the population as regards literacy, capabilities and responsibility on risk and insurance issues as well as the impact and effectiveness of existing programmes in this respect.

According to the needs of the jurisdiction, these processes should *inter alia* involve:

- Evaluation on a more systematic basis of the risks that could affect individuals and their relatives, along with analysis of risks and populations that are particularly under-insured or potentially over-insured.
- Evaluation of the population's degree of literacy and more or less active behaviour as regards their risk exposure, protective or risk mitigation actions, and insurance issues.
- Identification and assessment of the education needs of the population with respect to specific groups, risks, products and players as well as the reasons for any shortcomings.

- Systematic evaluation of measures and programmes intended to enhance education on risk and insurance issues, based on predefined criteria and including a cost-benefit assessment.

B. Mechanisms and tools

Programmes aimed at improving the level of awareness and education on risk and insurance should consider making use of a large variety of means so as to ensure that a wide audience – including targeted and vulnerable groups- may be appropriately and effectively reached.

This should imply, according to national circumstances, encouraging:

- Broad media coverage (*i.e.* radio, television, print journalism, billboard advertising and internet), and the organisation of events to raise awareness on insurance issues and on the importance of financial education in this area. In this perspective, risk awareness and knowledge of insurance issues of the main players in the information and instruction channels (*i.e.* the media, teachers, educators and parents) should be reinforced.
- The development of high-profile sources of reliable, objective and free information and/or specific bodies or centres through which insurance stakeholders could – possibly – co-ordinate to offer consumers information, education, assistance and advice on insurance issues.
- The development of various tools – internet sites, but also guides, brochures, leaflets and other available traditional or modern communication methods – enabling consumers to consult reliable sources for comparisons of the products offered by various insurance market players and to assess their level of protection against potential risks – e.g. through calculators and quizzes –, as well as their own knowledge of their insurance requirements and of how their policies operate.

For the most severe risks, without limiting the freedom to contract, under and/or inappropriately-covered risks, default mechanisms, which take into account potential temporary or long-term deficiencies in financial education or the passive behaviour of consumers, should be considered and properly regulated.

Similarly, the insurance and financial sectors should also be encouraged to develop innovative insurance products (*e.g.* microinsurance) and tailored distribution channels that can best meet the need for protection of consumers particularly of the most vulnerable segments of the population.

Notes

1. For the purposes of this document, "insurance issues" will be construed in a broad fashion to cover: first, general issues related to the risk exposure of individuals and to the resulting need for protection; second, all products intended to cover such potential risks for individuals (excluding banking, investment and savings products provided by pension funds or other institutions specialising in the provision of retirement-oriented savings products), irrespective of products' distributors; and third, all policies (including some life insurance policies that may encompass pension aspects) proposed and distributed by "traditional" insurance-market providers (insurance undertakings – companies, mutual societies, provident associations – and their intermediaries – agents and brokers) directly to individuals or to companies on their employees' behalf.

2. Main "insurance stakeholders" refers to responsible public bodies and authorities, main insurance market players, as well as associations of insurers, of intermediaries and of consumers, other NGOS, and relevant institutes or foundations, corporations as well as consumers, policyholders, insured, their beneficiaries and third parties.

3. The term "insurance market players" broadly covers underwriters and sellers of insurance products including: traditional insurance underwriters (insurance companies, mutuals and provident societies) traditional insurance intermediaries (brokers and agents) as well as non-conventional distributors such as banks as well as other kinds of sellers not in the financial sector (*e.g.* car dealers, supermarkets, travel agencies, etc.). The term also encompasses different types of distribution channels including the most modern (*i.e.* internet, cell phone, etc.).

4. See also in this respect, the OECD Recommendation on Guidelines for Insurer's Governance.

PART II

Financial Education in the Private Pensions Sector

Financial Education and Saving for Retirement: Analytical and Comparative Report

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Improving Financial Education and Awareness on Insurance and Private Pensions

Overview

Financial education is particularly important for retirement savings and in particular pensions due to the unique nature of these financial products. These are exceptionally long-term contracts with a wide social coverage – involving those with low education and income levels who may display a low risk-tolerance. At the same time private pensions are particularly complex products (involving tax issues, assumptions over future salaries, longevity and interest rates, etc.) and are increasingly important as a source of retirement income, which enlarges their potential impact on financial markets worldwide. In addition, various demographic and social factors – including increasing life-expectancy and the rise of defined contribution pensions involving individual choice – are making the risks individuals face in relation to private pensions increasingly severe.

Yet, not only do consumers have low levels of financial literacy in general, they often lack a good understanding and knowledge of pensions and retirement saving plans. According to surveys reviewed, pensions and retirement savings plans- though vitally important to individual welfare and the stability of the economy – are some of the least understood financial products. In addition, surveys indicate that individuals are not saving sufficiently to ensure an adequate retirement income and are often not saving wisely.

This report examines the need for financial education in relation to retirement savings and pensions in detail, looking at needs according to the type of retirement income and the drivers behind the increasing requirement for financial literacy in this field. The role financial education can play in improving the understanding of the retirement environment, the understanding of investment and improving the ability of financial intermediaries and fiduciaries is then discussed, and how financial education should be combined with other tools to achieve these outcomes – from disclosure, auto enrolment, framing choices and the use of default options. A range of financial education programmes which have been undertaken in OECD countries are then highlighted, and initial analysis on the effectiveness of these is presented. The report concludes by outlining some initial conclusions and lessons learnt.

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Improving Financial Education and Awareness on Insurance
and Private Pensions

Chapter 1

Financial Education and Saving for Retirement – Why Financial Education is Needed for Retirement Saving

1. Introduction

The need for financial education is increasing being recognized in relation to all financial products. This paper focuses on the growing need for financial education in relation to retirement savings, and in particular pensions. For the purposes of this paper, the definition of a pension plan is taken from the OECD taxonomy as: "a legally binding contract having an explicit retirement objective (or – in order to satisfy tax-related conditions or contract provisions – the benefits cannot be paid at all or without a significant penalty unless the beneficiary is older than a legally defined retirement age). This contract may be part of a broader employment contract; it may be set forth in the plan rules or documents, or may be required by law. In addition to having an explicit retirement objective, pension plans may offer additional benefits, such as disability, sickness, and survivors' benefits". Both defined benefit and defined contribution schemes are considered as pension plans. Retirement savings is used to describe other, non pension, retirement products, such as insurance products and tax-incentivised savings. As the report will explain, financial education is particularly important for defined contribution type pension plans – which will be the focus of the paper. However, financial education cannot be ignored even within the context of defined benefit pensions or other retirement savings products involving guarantees. Issues relating to these products will be touched upon, but not considered in detail. Further, this paper does not advocate one type of pension plan or retirement savings product or another, but merely aims to point out the increasing importance of financial education within all types of pension systems.

2. Definition of financial education

The broad definition developed for the OECD study, *Improving Financial Literacy: Analysis of Issues and Policies,* is used here (OECD, 2005a). By using a definition that includes elements of information, instruction, and advice, this report is as inclusive and comprehensive as possible in the identification, description, and analysis of financial education programmes:

Financial education is the process by which financial consumers/investors improve their understanding of financial products and concepts and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know *where to go for help, and to take other effective actions to improve their financial well-being*

Where:

- *Information* involves providing consumers with facts, data, and specific knowledge to make them aware of financial opportunities, choices, and consequences;
- *Instruction* involves ensuring that individuals acquire the skills and ability to understand financial terms and concepts, through the provision of training and guidance; and
- *Advice* involves providing consumers with counsel about generic financial issues and products so that they can make the best use of the financial information and instruction they have received.[1]

Finally, financial education also needs to be distinguished from consumer protection, although there is some overlap between the two. The provision of information on financial issues is common to both and they share the same goal of ensuring the well-being of consumers and shielding them from harm. They do, however, take different approaches, with financial education supplementing information with instruction and advice, while consumer protection emphasises legislation and regulation designed to enforce minimum standards, require financial institutions to provide appropriate information, strengthen the legal protection of consumers, and provide for systems of redress. The two should, however, be seen as complements rather than substitutes as it is important for both consumer well-being and for the effective operation of financial markets that consumers have full knowledge of the range of products available and contractual rights and obligations. Some consumers can acquire this knowledge through financial education programmes. However, others may be either unable or unwilling to do so and for these individuals consumer protection is important. A key goal is to avoid conflicts of interest, with care needed to ensure that financial education is used to educate and enable consumers whatever the retirement saving context – rather than for the promotion or advocacy of a particular form of pension or retirement income system.

3. Low levels of financial literacy – effect on retirement saving

The OECD's study on financial education, *Improving Financial Literacy: Analysis of Issues and Policies*, concluded that there is a lack of financial knowledge and awareness amongst consumers. For example, surveys identified in twelve countries for which results are available all demonstrated low financial literacy rates among consumers.[2] In addition, an in-depth review of six surveys in five countries (*i.e.* Australia, Japan, Korea, the United Kingdom, and the United States) found that despite differences in target audience, the approach to measuring financial literacy, and survey methodology, there were a number of similarities in the results, for example:

- low level of financial understanding among consumers;
- financial understanding is correlated with education and income levels;
- respondents often feel they know more about financial matters than is actually the case;
- consumers feel financial information is difficult to find and understand.

Not only do consumers have low levels of financial literacy in general, they often lack a good understanding and knowledge of pensions and retirement saving plans. According to surveys reviewed, pensions and retirement savings plans – though vitally important to individual welfare and the stability of the economy – are some of the least understood financial products. In addition, surveys indicate that individuals are not saving sufficiently to ensure an adequate retirement income. For example:

- According to a survey by the Employee Benefit Research Institute, four out of ten American workers state that they are not putting any money aside for retirement (Helman and Paladino, 2004).
- A report in New Zealand concludes that many individuals are either "unwilling or not able" to save enough for retirement, adding that about 30 per cent of households spend more than they earn (Weir, 2004).
- A survey from the Bank of Ireland Life reveals concerns that even those who are saving are not saving enough, adding that only about 52 per cent of workers aged 20 to 69 are investing in a pension at all (Business World, 2004).
- Aside from governments, employers themselves are increasingly concerned about their employees' levels of saving. A recent survey by Hewitt Associates finds that only 18 per cent of large employers in the United States are confident their employees are saving enough for retirement (Hewitt Associates, 2005).

In addition to not saving enough, surveys also show that individuals are not saving wisely. An important trend in many countries has been the rise in the number of workers participating in defined contribution plans. Yet it is clear that many of the workers in these plans, faced with the responsibility for investing their retirement contributions, need help. Again there is evidence from surveys (from some OECD countries where private pensions are voluntary) that the financial understanding of consumers often makes them unfit for the task of making their own investment decisions, for example:

- According to a recent survey by John Hancock Financial Services, less than one-quarter of Americans of working age consider themselves to be

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"knowledgeable investors", and even among this group there is "considerable confusion" about financial matters (Francis, 2004).

- The Japanese Consumer Survey on Finance finds that 71 per cent of adult respondents had no knowledge about investment in equities and bonds, 57 per cent had no knowledge of financial products in general, and 29 per cent had no knowledge about insurance, pensions, and tax – yet DC plans, introduced in Japan from 2001, require workers to make decisions about investments in equities, bonds, and other financial products.[3]
- In the United Kingdom, the Financial Services Agency ranks as one of its main concerns the fact that consumers are making financial decisions based on inadequate understanding (Wheatcroft, 2004).
- The Australian survey (of adults) notes that 21 per cent of those who received and read their superannuation statement did not understand it. In fact, 29 per cent of respondents cannot identify asset allocation from a superannuation statement and 38 per cent cannot identify the five-year investment performance from the same statement. Only 37 per cent of Australian respondents have determined how much they will actually need to save for retirement. Only 19 percent have used an Internet calculator to compare the effects of interest rates and fees on investments. Finally, 32 per cent of respondents think that saving money in a bank account is an appropriate retirement investment vehicle (ANZ Banking Group, 2003). In the 2005 Survey (ANZ Banking Group, 2005), taken after the introduction of individual choice into the superannuation system, most people (77%) understood that the best indication of the performance of a superannuation fund from the options provided was "return minus fees", but many people were not clear on what factors to take into account when considering a fund and 20% said they would consider short-term performance (which is not a good guide to future performance). A survey by the Royal Bank of Canada finds that respondents consider choosing the right investments for a retirement savings plan to be more stressful than going to the dentist (Canadian Press, 2005).

4. Why financial education is a major policy concern for retirement savings

Yet financial education is required in relation to retirement savings and especially for pension plans due to the unique nature of these products including:

- the long-term nature of the contract involved, and the subsequent requirement for incentives or even compulsion to overcome individual's "myopia" towards long-term savings – making education relating to pensions a unique challenge, a major task being to encourage investors to start to save as early as possible;

- their coverage of a wider social and economic range of the population than other savings products (particularly where incentives or compulsion are applied), meaning that vulnerable consumers, with low incomes and often limited education levels are involved;
- investors in pension funds often have a low risk tolerance, especially where private pensions represent subsistence rather than discretionary savings;
- education is particularly required for pensions due to the complexity of these products, involving tax issues, assumptions over future salaries and longevity, difficulties in the valuation of assets and liabilities – a complexity which is beyond the financial literacy of most investors and which gives rise to asymmetrical information between pension providers or financial intermediaries and consumers;
- the large number of pension funds in some countries limits the extent of supervisory oversight, and means a greater dispersion of fiduciary talent and expertise in pension fund administration, making the need for improved education and training for these parties all the more important;
- the "social" as well as financial role of pensions, which is becoming more important as reforms in many countries have given an increasing role to private pensions – placing increased responsibility with individuals who consequently need to be educated to understand and manage the risks to which they are exposed;
- the potential impact of pension assets on financial market and economic stability given their increasing size relative to financial markets and countries' GDP makes it important for the economy as a whole that saving is at a stable and adequate level and that pension assets are invested wisely.

5. Financial education needs according to type of retirement plan

Individuals are now saving for retirement in a variety of ways – including public pension provisioning, occupational pensions, and personal retirement saving plans. The level of financial education and type of information required does vary according to the characteristics of the retirement saving product chosen. For example, a deeper level of understanding would seem necessary for systems where individual choice is involved at all levels and where public pensions provide only a limited safety net in terms of retirement income, whilst less intensive knowledge may be deemed appropriate where individuals still rely on public pensions and do not have individual responsibility for investment choices (as demonstrated in the simple matrix below). Hence, although this report focuses on defined contribution style pension plans, the necessity to improve financial education should be seen as universal, applying also to environments with defined benefit pension plans or other retirement savings products involving guarantees.

Table 5.1. **Intensity of financial education according to nature of pension system**

	High levels of individual choice	Limited/ no individual choice
Limited public pension	Most financial education required	Medium financial education required
Substantial public pension	Medium financial education required	Less financial education required

Figure 5.1. **Types of private retirement savings**

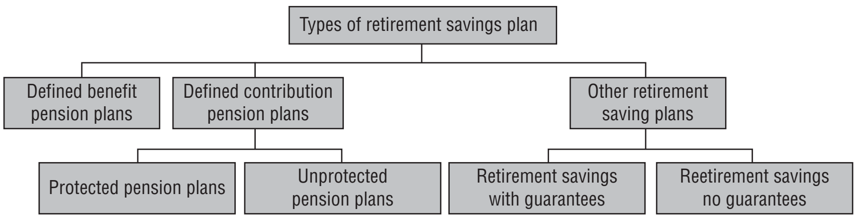


Table 5.2. **Financial education needs by type of retirement saving**

Type of retirement saving	DB pension plan	DC – protected/other retirement savings with guarantees	DC – unprotected/other retirement savings without guarantees
Characteristics of plan	Benefits are linked through a formula to member's wages or salary, length of employment or other factors. Sponsor is at least partly responsible for underfunding.	Pension Plan or provider offer an investment return or benefit guarantee. Sponsor commits to fixed contributions only.	No investment return or guarantee promised.
Who bears risks?			
Investment risk	Plan sponsor (split with members if contributory).	Provider or members collectively.	Individual.
Longevity risk	Plan sponsor if annuity provided (split with members if contributory). Individual if lump sum	Provider or members collectively.	Individual.
Inflation risk	Plan sponsor if benefits are index linked. Individual if no indexation or benefits adjustments allowed.	Provider if guarantees index linked. Individual if no indexation guaranteed.	Individual.
Who bears costs?			
Contributions	Usually plan sponsor but also members (contributory plans) in some countries.	Mainly individual. In some countries, sponsors offer matching contributions.	Mainly individual. In some countries, sponsors offer matching contributions.
Portability/switching fees	Potentially borne by individual (through benefit reduction).	Potentially borne by individual through switching and exit fees.	Potentially borne by individual through switching fees.
Administration fees	Usually borne by sponsor.	Usually borne by individual.	Usually borne by individual.

Table 5.2. **Financial education needs by type of retirement saving** *(cont.)*

Type of retirement saving	DB pension plan	DC – protected/other retirement savings with guarantees	DC – unprotected/other retirement savings without guarantees
Financial education needs – individuals	– Estimate of retirement income needs. – Estimate of total potential retirement income (public + private). – If voluntary, need to join plan. – Details of plan (*e.g.* are death and/or disability benefits included?). – Amount of benefits. – If lump sum, whether to buy an annuity. – Potential reduction in benefits from job change/ loss.	– Estimate of retirement income needs. – Estimate of total potential retirement income (public + private). – If voluntary, need to join plan. – Details of Plan (*e.g.* are death and/or disability benefits included?). – Appropriate level of contributions. – Amount of benefit can expect. – If lump sum, whether to buy an annuity.	– Estimate of retirement income needs. – Estimate of total potential retirement income (public + private). – If voluntary, need to join plan. – Details of plan. – Appropriate level of contributions. – If investment choice, asset allocation. – Whether to buy annuity.
Financial education needs – trustees	Funding and investment knowledge required.	– Funding to cover guarantees. – Optimal investment by sponsor/provider.	– Optimal investment if chosen by sponsor/provider. – Appropriate investment choices if individual choice.

6. Increasing need for financial education in pensions and retirement savings plans

As well as being highly complex products, financial education is also becoming increasingly important for pensions and retirement savings in general due to demographic trends and the developments in private pensions markets which have occurred in response to these societal changes.

Life-cycle trends

Increased longevity: In the last 100 years life expectancy has grown dramatically, thanks to improved sanitation, vaccines and healthcare advances. By 2040 the OECD predicts average life expectancy for men aged 65 in OECD countries of 83.1 years and for women 86.6 years, whilst, according to the United Nations, the percentage of the global population aged over 60 will increase to 20% by 2050. This increased longevity (demonstrated in the UN table below), combined with shorter working lives in many countries, has caused the number of years expected to be spent in retirement to rise dramatically. Hence financial education – helping people to plan for an adequate income in retirement – is becoming ever more vital.

Shorter working lives: A further social/demographic change which is being experienced in some countries and which has a major impact on

Table 5.3. **Selected demographics indicators**

		Europe	North America	Japan
Population growth				
	2005	-0.07	0.91	0.06
	2025	-0.26	0.61	-0.36
	2050	-0.37	0.38	-0.49
% Population over 65				
	2005	15.9	12.4	19.7
	2025	21.0	18.0	29.1
	2050	27.6	21.1	35.9
% Population over 80				
	2005	3.5	3.6	4.8
	2025	5.3	4.2	12.8
	2050	9.6	7.5	15.3
Life expectancy at birth				
	2005	74.3	78.2	82.8
	2025	77.8	80.5	85.3
	2050	83.6	82.7	88.3

Source: United Nations World Population Prospects, 2004 Revision Population Database.

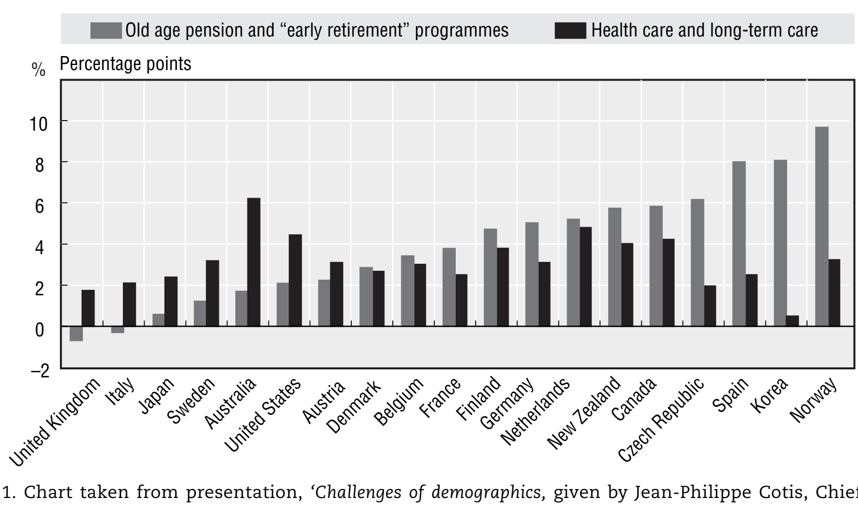
pensions is that average career spans have become shorter – making the retirement phase even more extended. Previously an average career could be expected to last for over 40 years, with up to 10 years of retirement being predicted – now it is not unusual to work for around 30 years and to live for another 30. The average rate of employment between the ages of 55 and 64 in the OECD is currently 48% – varying from 25% or less in France and Belgium, to 70% in Switzerland. This clearly makes pension provisioning far more expensive, and if nothing is done quickly to extend working lives, living standards could fall in the course of the coming decades. Hence the OECD's suggested policy responses, such as the promotion of private pensions and an increase in working lives.[4] Yet at the same time, attitudes to older age and retirement are also changing as the "baby-boom generation" approaches retirement. Retirees are increasingly expressing the desire for a more active retirement lifestyle, with surveys indicating that individuals increasingly tend to retire and plan to retire at an age before which they say old age typically begins. Indeed, retirement is almost being broken down in to two phases, including an early "active" retirement, which may still involve some work.[5] Funding this new form of retirement requires different types of retirement income, and individuals need to understand how to close the gap between what income they would *like* to retire with against what level they are likely to do so.

Changes in pension provision

Decline in public pensions: Many governments have been both explicitly or implicitly reducing public pension benefit levels and encouraging private pension savings. Such reforms increase the need for financial education programmes to ensure that individuals understand the impact of such pension system reforms and the responsibilities and risks which they face.

Shift to defined contribution schemes: A major trend taking place in pension systems globally – which is making the need for financial education ever more important – is the shift from defined benefit (DB) to defined contribution (DC) pension schemes. As outlined in Table 5.2, with DB plans the pension provider (normally the corporate employer) guarantees a set retirement income (usually a function of salary), whilst in DC plans retirement income is based on investment returns and only contribution levels are set. This means that more of the risk involved in pension provisioning (investment return risk and longevity risk) is shifted from the employer to the worker – though hybrid schemes, containing both DB and DC elements, may spread the risks between parties. Though the driving factors behind this shift to DC schemes are different across countries (e.g. due to the introduction of mandatory DC schemes in Eastern Europe vs. cost pressures on employers in the United States and United Kingdom), the trend is an increasingly global one. Financial education is necessary to ensure that pension members and beneficiaries understand the risks they are exposed to. In addition,

Figure 5.2. **Spending on public pensions as a % of GDP**[1]



1. Chart taken from presentation, *'Challenges of demographics,* given by Jean-Philippe Cotis, Chief Economist, OECD, Policy Network Spring Retreat, March 2005.

Source: Dang, Antolin, Oxley (2001), "Fiscal implications of ageing: projections of age-related spending", Economics Department Working Paper No. 305, OECD, Paris.

beneficiaries need to understand that with DC schemes it is necessary to start saving earlier than with DB schemes (due to compounding interest). There are also implications for the payout stage of pensions, with demand for annuities likely to rise. These factors make the need for broad financial education ever more pressing.

Individual choice: As well as shifting to defined contribution plans, many pension schemes are also allowing individual plan members to make their own investment decisions. This is a natural response to the shift of market risks from employers to employees – and indeed is often being demanded by individuals (particularly where schemes are mandatory). The possibility of individual choice allows employees to take into consideration their individual risk profiles and preferences. The range of choices, however, differs greatly by country, for example, in Chile or the United Kingdom the assets manager, portfolio and payout provider may all be selected, whilst in Sweden only the first two choices are available and in Hungary only the assets manager. Some countries allow a full range of investments to be selected (*e.g.* the United States) whilst in other countries this is more controlled. However, the trend towards allowing more individual choice naturally requires advanced levels of financial education to ensure that pension beneficiaries make informed and suitable investment decisions.

The changing retirement saving landscape, combined with these demographic developments and policy responses, make the need for financial education to improve individuals' knowledge and awareness of pensions ever more important. A fundamental driver for this need for increased financial education is the shift in risk, at least in part, from governments and financial institutions to households – seen most clearly in the switch from DB to DC pension plans. Individuals are facing an increasing number of financial risks, including investment risk during the accumulation phase, the risk of asset volatility at the point of retirement and longevity and inflation risk during the decumulation phase. The concern is that households may be neither aware of nor capable of managing these risks, most having only a limited experience with investing (*e.g.* via a mortgage or a mutual fund). Even if they are aware of the risks, they might lack the financial understanding necessary to appreciate how they may be affected by them – a concern highlighted in surveys of financial literacy across countries. Thus, it is imperative that households be made aware that they will be increasingly bearing risks once borne by professional investors. They will need to be provided with information, advice, and assistance to help them manage these risks.

Notes

1. Specifically excluded are programmes that offer recommendations regarding individual financial products and services, for example, advice recommending the purchase of financial product X offered by financial institution Y.
2. These countries are Australia, Austria, France, Germany, Hong Kong China, Italy, Japan, Korea, Portugal, Turkey, the United Kingdom, and the United States.
3. The information on this survey comes from the responses to the OECD's questionnaires on financial education provided by OECD member countries and selected non member countries.
4. See "Financing retirement: private pension policy challenges", presentation made by OECD Secretary General, Donald Johnston in Montreal, Canada, June 2004 – available at: *http://www.oecd.org/dataoecd/26/13/33637501.pdf*
5. HSBC – "The future of retirement in a world of rising life expectancies: Attitudes towards ageing and retirement – a study across 10 countries" *http://a248.e.akamai.net/7/248/3622/5d4393a0c726bf/www.img.ghq.hsbc.com/public/groupsite/assets/retirement_future/hsbc_future_of_retirement.pdf;brochid=VEGF3DCWMFYFHQFIYNKSGWQ*

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Improving Financial Education and Awareness on Insurance
and Private Pensions

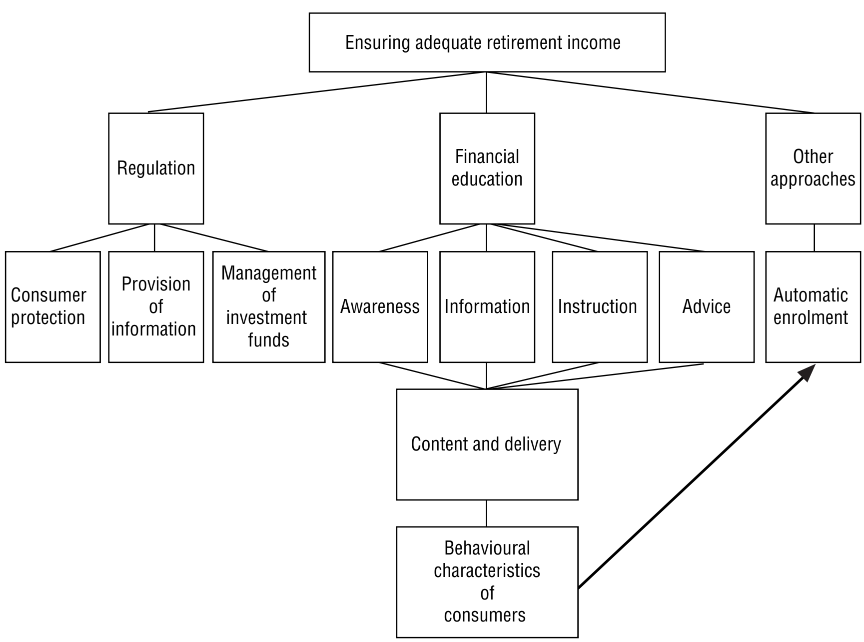
Chapter 2

Current Financial Education Programmes, Related Approaches and Evaluations

Surveys and experience therefore show how financial education is urgently needed, and can play an important role in helping workers achieve an adequate retirement income. However, financial education should be seen as only part of a broader strategy for achieving this goal. The following diagram illustrates tools which have and can be used in combination by different countries to achieve the goal of helping to ensure adequate retirement incomes for their populations.

It is clear from the diagram in Figure 2.1 that financial education, while important, is only one approach to ensuring that consumers have an adequate retirement income. In many cases it could be complemented by regulation, such as consumer protection, and/or by other approaches, such as automatic enrolment. Financial education serves to increase consumer awareness of financial issues, in addition to providing consumers with information, instruction, and advice on these issues. Providers of financial education must ensure that the content and the mode of delivery are appropriate for their

Figure 2.1. **Tools for achieving adequate retirement incomes**



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target audience. The content and delivery mode will be determined in part by the behavioural characteristics of consumers, as well as by their economic and demographic characteristics. The behavioural characteristics of consumers will also influence the design of effective automatic enrolment plans.

1. Financial education

Understanding the changing retirement environment[1]

An important role for financial education is alerting individuals to the importance of understanding the various retirement saving options (*i.e.* private pensions, retirement savings plans, social security, etc.) and of taking a proactive role in saving for retirement, ideally from an early age. Financial education can provide information on the characteristics of pensions and retirement savings plans so that the individual understands what actions he needs to take with respect to each of the options. For example, he will know that he will need to bear more of the responsibility (and risk) for his own retirement savings if he has a retirement savings plan than if he has a pension. He will know that in the case of a retirement savings plan he will have to make decisions about participation, contributions, and asset allocation.

In response to the changing retirement income landscape, public and private groups are initiating programmes to encourage retirement savings. In the United Kingdom, for example, the Department for Work & Pensions (DWP) is considering a DWP/Age Concern/Citizens Advice partnership to experiment with a number of ways to prompt and encourage people to save more, and to give them support for financial retirement planning into their future. Younger workers need to understand that it will not be possible to maintain the same forms of retirement income into future generations and they therefore will have to take on more responsibility for their own savings. In Canada, the Canadian Foundation for Economic Education (CFEE) issues a publication *Money and Youth* targeted to younger workers.[2] The publication includes sections on planning for retirement and getting started on investment and understanding investment options. In the United Kingdom, the Informed Choice initiative targets individuals under State Pension age. The highest priority audience are those who are unlikely to amass adequate savings during their working years, and who are thus vulnerable to considerably lower standards of living once retired. In 2006 the German Insurance Industry introduced, on a voluntary basis, a simple instrument which allows insured individuals to calculate their total old-age security and disability benefits from all three pillars (Eigenvorsorge-Report'[3]). By comparing their future benefits with a specific pension level they can calculate their pension gap – the "Eigenvorsorge Report" being supported by an on-line calculator.

Older workers may also have to make some changes, for example extending their retirement age or at least not expecting to retire early. Individuals also need to understand that they may spend more time in retirement than they had originally planned. Financial education is needed to ensure that retirement income and pensions are adequate, and to close the gap between the retirement people ***want*** and what they can ***afford***[4]. With shorter working lives and longer retirements ahead, individuals need to understand that increased savings are required for them to be able to live in the manner they hope to once they have stopped formal work, and indeed attitudes towards work as a whole may have to change – perhaps with people taking on different jobs towards the end of their working lives (the concept of an active or working retirement). People will have to change their expectations and definitions of what retirement means and how it is funded. Financial education can and should play an important part in aiding the smooth transition of these changes and avoiding intergenerational conflict. Germany is planning to launch a programme addressing these questions. *Fit in Altervorsorge* is an information campaign covering a series of training sessions targeted to the public and older workers "to help find the right path to an additional old-age pension". Most particularly the campaign addresses concerns such as, "What will be my financial situation in old age? Should I take out an additional private or occupational old-age pension or both?" Also available in Germany to both younger and older workers looking for retirement provision solutions are advisory services and consumer advice centres, and information services of trade unions and employers' associations.

Financial education programmes can also help governments explain to the public the terms of the debate when pension reform is on the political agenda. The recent Slovak government media campaign is an example of a successful explanation of pension reform (Jurninová, 2004). In addition, in countries in which pension reform is occurring, it is very important that workers be aware of the necessity of making sound investment decisions and that they be provided with the information and skills that will enable them to do so. Financial education programmes can explain these pension reforms to consumers and help consumers make appropriate choices. In Finland, for example, major ongoing information campaigns have been organised by the Finnish Pension Alliance TELA and the Finnish Centre for Pensions to explain the pension reforms. The activities include special training for reporters, news flashes, an information magazine distributed to Finnish households, information brochures for the media and a television programme where specialists answer questions from the public. Care should, however, be taken with public campaigns to distinguish between financial education and political advocacy for a particular form of pension or retirement income

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system. Public debate on pension reform needs both, but they should be clearly separated to allow citizens to make informed choices when consulted.

Understanding of investments

Financial education can contribute to the well-being of workers in retirement by providing them with the information and skills to make wise investment choices with both their pension plans and any individual savings plans. Programmes can provide workers with both basic financial information such as the trade-off between risk and return and the value of compound interest and more specific information about the advantages and disadvantages of particular types of investments. In Ireland, for example, the Irish Financial Supervisory and Regulatory Authority (IFSRA) is currently in the process of preparing two information booklets which will highlight the costs and risks involved with all forms of pension products. In addition, the Pensions Board and the Consumer Association of Ireland have published an information booklet on private pensions. Meanwhile in the United Kingdom, the Financial Supervisory Authority (FSA) requires providers of consumer products to produce explanatory documents and is currently publishing a "Key Facts" document which outlines proposals to make the information contained in the explanatory documents more straightforward, and with a "sharper focus".[5] Financial education programmes can also contribute to the well-being of workers by teaching them to be wary of schemes that promise high returns with low risks and by helping them ask the right questions about financial products and services. By providing accurate, objective, and easily understandable information, such as a discussion of investment terms and descriptions of the features of different types of investment, and by equipping workers with the skills to absorb this information, financial education can help them select the investment products and services that are most appropriate for their individual situations. For example, a financially educated investor would know that he should not concentrate an entire investment portfolio in one stock, whether this is his personal savings or an employer-provided defined contribution plan. One example of a good tool to do this is the FSA's Comparative Tables which help consumers in purchasing similar financial products from a range of providers, thus assisting them to shop around for products such as personal pensions, stakeholder pensions, and annuities.[6]

Improving the ability of financial intermediaries and pension fund fiduciaries

Though the focus of this report is on financial education for individuals – particularly in an environment with defined contribution pension plans – it is important to note that financial education programmes can also be targeted to the training of financial intermediaries. The licensing and training of those selling pension products and giving pension advice has been tightened in many countries. For example,[7] the recently created Financial Services Act in the Netherlands requires that the financial advisor assess the financial situation of the consumer, determine the degree of risk the consumer is willing and able to take, and provide the consumer with all the information necessary to adequately judge the financial products and services offered. The Financial Advice Consumers Act in Sweden ensures that individuals providing advice have the necessary skills, that the advice provided is appropriate for the specific needs of the individual consumer, and that the consumer is aware of the relationship of the advisor to any specific financial company. In Germany the insurance industry has since 1990, on a voluntary basis, provided testing and certification for their members after one year in-company training, aiming at high standards of intermediary expertise. 120,000 members have taken these 'BWV' tests – with a failure rate of 75-80% testifying to their high standard. In addition in 2002 BWV were in one of the founding institutes of the European Financial Certification Organization,[8] which aims to standardize certification across Europe.

In addition to the financial education needs to individual consumers, another area of great importance for financial education specifically relating to pensions is the training of trustees and other fiduciaries – a topic which has generated much discussion in its own right and is not the main focus of this paper.[9] As the financial environment has become more sophisticated and funding and investment decision more complex, so has financial education for trustees and other pension fund fiduciaries, who either make these decisions or oversee experts who do so, and it is becoming ever more required – just as for individuals making their own asset allocations.

2. Regulation

Disclosure

However, financial education by itself can only go so far. In addition to helping individuals to understand their retirement needs and pension programmes, there is also the need to foster simpler, more easily compared information on pensions – given the complexity of these products. Education can bring levels of understanding "*up*" but it is also necessary to bring the information provided on individual's pension plans provided by pension plan sponsors "*down*" to a level which is easily understandable. Information needs to be provided in as simple a language as possible, with limited use of "jargon". For example, research by the Irish Financial Services Regulatory Authority (IFSRA) finds that for 75 per cent of consumers the written information on financial products is too difficult to understand (Keena, 2004). Policy measures may help market participants deal with investment and other risks by facilitating access to accurate and standardized information. Better information disclosure is also required to assess the extent to which financial intermediaries/advisers act in favour of investors' interests – as severe 'information asymmetries' need to be overcome. Non-professional investors may simply be unaware of the potential conflicts of interests that might prejudice any investment advice they receive. Policymakers should also consider policies to improve the transparency of fees, or even capping them – though this is more controversial (for example only asset-based fees may be charged for stakeholder pensions in the United Kingdom, capped at 1%, and for mandatory individual account plans in Sweden, which are also capped). Better disclosure is also needed on the costs and benefits of financial products such as annuities and reverse annuity mortgages.

Currently, a number of countries require that certain information be provided to members and beneficiaries of occupational plans, such as information on the characteristics of the pension plan itself, detailed information on the projected level of retirement benefits, the range of investment options, the actual investment portfolio, the extent of exposure to risk, and the costs related to investments. The Canadian Association of Pension Supervisory Authorities (CAPSA) has produced a set of "*Guidelines for Capital Accumulation Plans*" – applicable to plans where members are permitted to make investment choices – which provides a useful set of 'good practices' for the information and advice that should be given to individuals to help them make these investment choices.[10]

A number of countries are considering regulations or legislation to improve the disclosure of information by financial institutions.[11] For example, in Hong Kong, the Mandatory Provident Fund Schemes Authority (MPFA) issued 'The Code on Disclosure for MPF Investment Funds' in June 2004 to MPF trustees, so that scheme members would be provided with clearer and easier-to-understand information, enabling them to make more efficient investment decisions. A government working group in Finland has recommended that all investment fund companies and investment service suppliers be subject to uniform regulation so that consumers would have access to comparable information about the costs and risk of different long-term savings products.

The OECD "Guidelines for the protection of rights of members and beneficiaries in occupational pension plans", also address the issue of what information should be provided to pension fund members and beneficiaries (via Guideline IV on disclosure and availability of information). The guidelines state that members and beneficiaries should have a legal right to ready access or disclosure to basic information about the pension plan. This is taken to mean:

- adequate information regarding rights on access;
- anticipated contribution and/or benefit accrual rates;

- vesting schedules;
- other rights and obligations;
- investment policy;
- the names and manner of contacting responsible parties for plan administration and governance;
- the claims process or procedures.

In addition, certain information should be provided to each individual prior to joining the plan and upon request afterwards, such as plan documents and information on the governing body, an explanation of promised benefits, information on portability and the consequences of leaving the plan early. Other regularly disclosed information should include performance and levels of accrued benefits or an account balance, via a timely, individual benefit statement. Additional and more frequent disclosure for member-directed DC plans may be required, including enough information on financial instruments to make an educated decision and standard, comparable information on investment choices (including charges). Plan members should also be given written accounts of transactions and of any major changes to the scheme as well as notification if contributions have not been received. Whilst the guidelines recommend that all material should be in easily understandable and adequately delivered, they also note that consideration should be taken to avoid the provision of unnecessary or burdensome information, and that costs be considered.

Given that workers will increasingly receive retirement income from a variety of public and private sources, it is important that information be provided to them on all sources of future retirement income. Individuals will not be in a position to make decisions regarding private pension savings unless they know the level of retirement income they can expect from the state. The British government is in the process of developing such combined statements, believing that one of the best ways of helping people to plan for retirement is through the provision of personalised information regarding their forecasted state and private pension's positions. A state pension forecast can be applied for and the government has begun an automatic dispatch of such forecasts, mainly at first to self-employed people. In addition, the Government and several employers are collaborating to provide a combined forecast of state and current occupational or personal pension to company employees. In June of 2005, 8 million people were scheduled to receive state pension forecasts from the Government, while 6.3 million people were scheduled to receive combined pension forecasts. As of spring of 2006, British citizens have been able to calculate their total projected pension income (both State and private) and to obtain a forecast of the sum they might require

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during retirement through the use of the web-based Retirement Planner.[12] The Swedish authorities are also targeting combined pension projections.

How information is presented is also of great importance. Information should be provided in as many formats as possible, to meet the preferences of as many consumers as possible.[13] Face to face programmes have been found to be the most effective, but are naturally expensive.

3. Other approaches

Yet even when well educated individuals have access to all the information necessary to make rational decisions regarding their pension, problems may still arise. Improved financial education is the appropriate response if a lack of financial information or skills is the reason for low levels of saving, but an increasing number of studies in behavioural economics show that financial and savings behaviour relate to psychological factors. For example, several studies find that while a certain percentage of consumers are dedicated savers who think that individuals should take responsibility for their retirement, a much larger percentage have a "live for today" attitude and prefer to spend money than to save it, or would like to save more but lack the willpower or are overwhelmed by too much choice.[14] These findings, therefore, show heterogeneous savings behaviour across consumers, which have important implications for the design and implementation of effective financial education programmes.[15] For example, in order to meet the needs of those consumers who are "non-planners", financial education programmes will need to emphasise simpler decisions and tangible present-day (as opposed to some future day) benefits, using explicit and direct information, reduced complexity, and fewer choices.

Yet even these directed schemes may not be sufficient, and studies therefore conclude that for some consumers in this group of non-planners, financial education may not be the only solution, and other measures may be required to ensure adequate level of savings for retirement.

Automatic enrolment and other schemes

It has been suggested that what might be best for this group of "non-savers" is automatic enrolment in a pension plan with appropriate default options with respect to contribution rates and investment allocation – ensuring an adequate level of saving for retirement even if they do nothing. Choi, *et al.* (2002), study the impact of automatic enrolment in 401(k) plans using both a survey of individual savings adequacy and an analysis of administrative data on the 401(k) savings behaviour of employees in several large corporations that had implemented changes in their defined contribution plans.[16] The authors note that sponsors of financial education programmes need to keep in mind a key behaviour variable – that employees often follow the "path of least resistance". In other words, employees will often do what is easiest, which may be nothing, a phenomenon that the authors call a "passive decision". Thus, by changing the design of the 401(k) plans so that the default is automatic enrolment when the employee becomes eligible, participation rates can be greatly increased and few employees ever take action to disenroll. Participation rates under automatic enrolment are between 86 and 96 per cent after six months of tenure at the companies studied. Before automatic enrolment, participation rates at six months of tenure were between 26 and 43 per cent. The authors conclude that plan design can significantly affect the savings behaviour of individuals. However, despite growing enthusiasm for automatic enrolment (*e.g.* both the New Zealand and UK governments are working on automatic enrolment in pension schemes for all workers) experience of using such techniques and evidence of their impact is still fairly limited. In addition as few employees opt out of default options, governments' or employers' choices of default savings rates and default investment funds have significant effects on savings levels of employees and could have implications for liability (a concern which has been raised in Germany, for example). It should also be noted that the use of default options does not remove the need for financial education as individuals still need to decide whether it is optimal or not for them to remain in such schemes; specifically, efforts should still be taken to ensure that individuals are engaged with decisions relating to their retirement income.

Thaler and Benartzi (2001) address the issue of low savings rates in 401(k) plans and suggest an approach for increasing those rates. They base their approach on research showing that individuals prefer future opportunities to save over current ones, that due to inertia and procrastination individuals tend to stay in a programme once enrolled, and that due to loss aversion individuals are reluctant to increase their retirement savings if this means a reduction in take-home pay. These principles were used to design the *Save More Tomorrow* (SMT) programme, which gives workers the option to commit themselves now to increase their savings rate later, for example, each time they get a raise. This programme has been introduced in several firms. Where it was used in conjunction with an investment consultant who met with the employees and discussed savings options, the workers who joined the SMT plan tripled their saving rates in 28 months from 3.5 per cent to 11.6 per cent.

Number of choices

Framing the way choices are offered has also been shown to impact and potentially improve investment decisions; for example, moving from a *libertarian* solution (involving better disclosure, financial education etc.) to a *libertarian paternalistic* one. Studies in behavioural finance also show that individuals react to risk in different ways depending on how options are "framed", which may lead to misinterpretations and wrong choices.[17] Workers also seem to be overwhelmed by "choice overload", with consumers less motivated to choose, less committed to the decisions they make, less likely to choose optimally and more likely to opt out of the system altogether, particularly if time and effort are needed to make informed decisions (see Iyengar *et al*., 2003). In the United States pension literature, observers have noted a negative effect of number of choices on plan participation,[18] whilst the actual experience in Sweden is that over 90 percent of participants end up in the default fund (OECD, 2005b). The notion of diminishing marginal utility therefore seems to apply also to the number of portfolio choices offered. Limiting options to a manageable number can simplify decisions and provide incentives to save more for retirement, apart from lowering administrative costs. This research finds that participation rates peak when only two funds are offered. As the number of funds increases, participation rates decline (by 1.5 to 2% for every 10 funds added). One implication arising from this research is that employers could use a "tiered" approach in which a limited number of options, for example fewer than ten, is offered on the first tier, with one choice being "additional funds", providing sophisticated workers with many more options and thereby preserving individual choice. The extent of investment choice, however, will vary depending on the nature of the pension plan, the conditions in the relevant securities markets, the role of the pension plan in the broader retirement income security scheme of the particular country, and other similar factors. The decision to limit choice should be weighed against the need to provide sufficient diversity of choice and assure a competitive market.

Default options

Related to framing the number of choices, it is also important to have a well designed default option, given that many individuals take this option as they do not wish or feel able to make their own investment decisions. However, there is debate as to what constitutes a "well designed" default option. In some countries, like the United States, plan fiduciaries are increasingly selecting life-cycle funds as the most appropriate default option. This is also the most common default choice in the Latin American region and is also being used by some private funds. These consist of portfolios that become more conservative as the member ages. For example in Chile, Mexico and Peru individuals who do not make an active investment choice are allocated to the provider's different funds according to age. In Chile, up to age 35, individuals are assigned to fund type B, which has a considerable equity component. Men between 36 and 55 and women between 36 and 50 are put in type C and the oldest workers into type D. No one defaults to type A or E (the most and least risky) funds. With the introduction of investment choice in Mexico, the SIAFORE Basica 2 is the default option for all workers except for those who are 56 or older, who are assigned to SIAFORE Basica 1 (unless they choose otherwise). This gives some equity exposure to younger workers by default. Similarly in Peru, under-60s default to the mixed fund while over 60s are allocated to the conservative fund unless they choose otherwise.

In other countries default funds are based on risk pooling principles, providing smoothed returns, or consist of insurance products offering guaranteed returns, like the guarantee investment contracts offered in many 401(k) plans in the United States or a deferred annuity. The designers of such default options presume a high level of risk aversion by plan members, and therefore try to ensure that the default should come as close as possible to providing a risk free rate of return to contributions and provide a high level of protection against longevity risk.

In Australia the typical default portfolio is a "balanced" fund, with an equity weighting of typically around one half of the portfolio. In Sweden the Premium Pension Authority (PPM) sets out the objective of the default fund as: "People who do not have a fund manager, for whatever reason, should receive the same pension as others – that is our goal". However, this objective can be interpreted in a number of different ways. Observing what the PPM has done, it is clear that low administrative charges are a key goal: investment-management fees are 0.15% of assets, compared with an average of 0.6% for active choosers. The default fund has just 13 employees and contracts asset management out to a range of mainly indexed funds. To achieve the overriding objective of matching the returns of active choosers, the default fund's portfolio is similar to the average, with 82% in equities (17% domestic, 65% overseas), 10% in inflation-indexed bonds and the rest (8%) equally in hedge funds and private equity. It is important to note that this rather aggressive portfolio is because 16% of the pension contribution goes into the public scheme and just 2.5% into the DC account. In Hong Kong Mandatory Provident Fund Schemes are required by legislation to offer at least one constituent fund in the scheme in the way of a Capital-Preservation Fund. Likewise the default portfolio in Estonia and the Slovak Republic is the conservative fund. However, such funds may be too conservative, particularly for younger workers, and risk not building enough assets to ensure an adequate retirement income. Since workers tend to remain in the default solutions, participants risk getting locked into retirement savings arrangements that do not work to their best advantage. Default funds may also vary depending on the size of the public pension.

4. Case studies[19]

Overview

The OECD's survey of financial education programmes in member countries identified 19 countries that already provide, or are planning to provide, workers with information about pensions and how to invest their savings for retirement: Austria, Australia, Canada, Czech Republic, Finland, Germany, Hungary, Ireland, Italy, Japan, the Netherlands, New Zealand, Poland, Portugal, Turkey, Mexico, Sweden, the United Kingdom, and the United States.

The most frequently used way of providing retirement savings information is through publications. These come in a variety of forms including brochures, magazines, booklets, guidance papers, newsletters, annual reports, direct mail documents, letters and disclosure documents. The majority of providers of these publications are from the public (or semi-public) sector: government agencies, ministries (of finance and social affairs), central banks, and regulatory and supervisory authorities. Consumers' and employees' associations as well as pension fund organisations are also important providers of these publications. Most publications are intended for a broad selection of investor population groups, but a few target specific groups including employees and members of specific pension funds.

The next most frequently used method of providing retirement savings information is through websites. The topics covered and providers of these websites are similar to those of publications. Most sites are intended for all investor population groups. An example of such a site is that of the Investor Education Fund in Canada,[20] which contains several investment calculators and a variety of resources to help investors determine their risk level. In contrast, one initiative in Poland is targeted particularly to insurance and pension fund clients. Another project in Sweden is a web portal grouping together the numerous information pages and websites already in existence which provide information and advice on the many different pension systems available to future Swedish retirees.

Training courses are also often used to deliver financial information on pensions. Providers range from employers (United States) to pension fund organisations (Netherlands) to independent retirement investment information services (Australia). Courses also tend to be targeted at specific population groups, such as employees or company board members and/or policymakers.

A number of countries have undertaken public education campaigns for the promotion of financial education on investment and saving. Providers of these campaigns span the public, semi-public, private and independent non-profit sectors and include regulatory and supervisory bodies, government agencies, and consumer associations. They also include a variety of methods of provision, such as brochures, websites, radio and television.

Selected examples

For some countries it is governments and regulators that provide information and education on general issues, while financial institutions provide more specific product information, whilst in others regulations exist on the types of information employers can provide. It is important to have some coordination on the provision of information because although information about pensions is widely available, people often do not know which sources to trust, how to access it, or how the information relates to their circumstances. Successful programmes have been shown to be ones with a strong leader, but involving many different partners (e.g. the Pensions Awareness Campaign in Ireland). The following examples show the different roles played by the various parties in campaigns.

a) Government – awareness campaigns

Australia: After the superannuation choice of fund legislation[21] went into effect on 1 July 2005, the government directed the Financial Literacy Foundation (a division in the Department of the Treasury) to coordinate with ASIC (the Securities and Investment Commission) and ATO (the tax office) in implementing the choice of fund policy. The government allocated almost $20 million over two years to fund education initiatives associated with the implementation of fund choice. This education campaign includes four main activities which aim to raise awareness: a call centre to reply to questions regarding fund choice; the Super Choice Internet site;[22] written publications targeted to employees and employers informing them of their obligations and rights; and an advertising initiative informing employers and employees of their obligations and rights provided for by the choice law. A recent evaluation of the campaign's first phase concluded that consumers and employers rated the initiative highly. The campaign will be further developed, particularly amongst employer groups, in 2006.

Italy: The Directorate for Communications of the Ministry of Labour has begun designing an educational campaign, in cooperation with COVIP (the pension supervisor), prior to the final approval of the country's pension reform. This campaign provides workers with information on all aspects of reform of the Italian pension scheme, on the characteristics of different pension plans, and on the different choices available to workers. The campaign includes: a dedicated Internet site with links to appropriate pension-related sites, a telephone call centre with operators knowledgeable about the reform, a brochure describing the reform and the choices that workers need to make (sent to all private sector employees), and announcements and advertising in the media (newspapers and magazines, radio and TV). This educational campaign has a dedicated budget of 17 million euros as well as additional funding from the internal resources of the relevant government agencies.

New Zealand: As part of the KiwiSaver initiative,[23] a new voluntary work-based retirement savings scheme, the government has developed a national financial education campaign. The purpose of this educational campaign is to provide workers with the basic tools required to make simple financial

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decisions. Initially, the campaign will provide workers with information that will enable them to decide if KiwiSaver is appropriate for them, if it will help them achieve their savings goals, and if they can afford to participate. Officials are hoping that the KiwiSaver educational campaign will be able to build on and complement financial education work already being conducted by a number of government and non-government departments and agencies. It is expected that the KiwiSaver financial education campaign will contribute to improving the level of financial literacy amongst employees in New Zealand. The end goal of the programme is to develop a "well-regulated financial intermediary industry" and a "well-informed workforce".

United States: The public information campaign, *Choose to Save,* advocates the idea that in order to ensure a secure financial situation for the future, consumers must start saving today.[24] The programme, provided by the non-profit Employee Benefit Research Institute (EBRI), is delivered nationally using a wide range of media including newspapers, radio, television, and the Internet, train and bus advertisements and conferences. Partners such as the United States Department of Labor co-operate on producing written materials including booklets (*The Power to Choose*) and brochures (*Top Ten Ways to Save for Retirement*). Public service announcements originally developed for radio and television stations in just one metropolitan area are now broadcast in forty-nine states. Meanwhile, since 1997, four television news specials called *The Savings Game* have been broadcast on primetime in one metro area and also nationally on cable stations, with the total value of their airtime already exceeding $20 million. Internet tools are also provided such as the *Ballpark Estimate Retirement Planning Worksheet,*[25] which helps consumers estimate how much they need for retirement savings, and over 100 online financial calculators, which assist investors with a wide range of financial planning issues including credit, budgeting, mortgages and all aspects of their future financial security. Funding and materials for these programmes have been provided by private sector companies, partner institutions of the American Savings Education Council (ASEC) and EBRI members.

b) Pension regulators and securities market supervisors – information provision

Mexico: The 1997 reform replaced the country's pay-as-you-go (PAYG) system with a defined contribution system based on individual capitalisation accounts managed by specialised financial institutions, called the Afores. The new pension system has generated a need to provide more information for workers and to introduce them to a basic financial education scheme related to the pension system. The Mexican government agency, Consar, has responsibility for disseminating such information on the new pension system and aims to let employees know that it is important to select an Afore[26] with the smallest possible commissions and greatest possible returns. It does this through a permanent information campaign provided in partnership with Afores, unions, the private sector and employer associations, and targeted to workers. The campaign's main goal is to generate interest and concern among employees about preparing effectively for their retirement. The campaign uses Internet and media channels (TV, radio, newspapers, magazines, billboards) for its principal delivery methods. More specifically it publishes printed materials, such as wall posters and advertisements in newspapers and magazines, and online materials, such as banners on principal Internet sites.[27] It also diffuses radio and television advertisements, and places posters on information stands nationwide.[28] Materials are intended to develop workers' interest in their retirement. They include questions such as: "Do you prefer 15% more or less in your retirement", "Do you know how much your Afore is charging you?", "Are you indifferent?" Moreover Consar agents make personal visits to companies and associations, and seminars and round tables are also organised. As a result, Consar has succeeded in achieving a closer relationship with workers, thus allowing them to understand and take stock of all the options they have to enhance their personal retirement savings.

Spain: The supervision of Pension Funds is carried out by the General Directorate of Insurance and Pension Funds. On the website of this directorate,[29] members of pension funds can find information about balance sheets and profit and loss accounts of pension funds, regulation on courses, sectorial statistics, consultations to clarify regulations, frequently asked questions, the process to make a complaint against the managing entity, and register information.

Italy and Spain: The websites of these countries' respective securities markets supervisory authorities (Consob in Italy and CNMV in Spain), both feature an *Investor's Corner* to draw the investor's attention to relevant information. Consob's *Investors' Corner* is divided into four sections: first, "Warnings" include the latest notifications (from Consob or corresponding foreign authorities) about frauds or abusive activities; second, "Dos and don'ts" gives suggestions to follow before, during and after signing an investment contract and underlines the importance of an appropriate information relationship between investors and intermediaries; third, "Know the risks" is a page stating the risks of investments in financial instruments; the fourth and final section, "Investor education" (launched in 2001) details all the educational campaigns elaborated by Consob as well as other helpful information pages.[30] *Corner (Rincón del inversor*) of CNMV's website gives clear, detailed information on the functioning of Spanish securities markets, and is organised in a similar way to its Italian counterpart: it is clearly divided into three sections – Information, Help to Investors and Warnings.[31] *Investors' Corners* are also found on the websites of the regulatory and supervisory authorities of Turkey and Japan. The Spanish National Commission of Securities Markets (CNMV) publishes Investor Information Guides on topics related to different areas of the securities market (*i.e.* intermediaries, products, etc.). One set of guides is published under the title *What you need to know about…*, and deals with the main securities market topics, such as mutual funds, fixed-income products, and the rights and responsibilities of shareholders. In 2003, 200 000 copies were distributed free to investors. The CNMV intends to accompany the launch of new and more sophisticated products (*e.g.* equities, derivative products, etc.) with a further set of *Investors' Guides*, in order to familiarise more experienced investors with more complex financial services. In addition, the pension fund supervisor in Spain, the General Directorate of Insurance and Pension Funds, also provides information on pensions. Their website[32] provides pension fund members with information on the balance sheet and profit and loss account of pension funds, clarifying existing and forthcoming information on regulation, as well as statistics related to the sector, FAQs and how to make a complaint.

Poland: The Polish Securities and Exchange Commission (PSEC), a central government authority, produced in 2003 the "Investor's Guide", which includes basic information on investing in the Polish capital market. Updated and reissued in 2004, this guide initiated a series of brochures targeted at beginner investors (*i.e.* those with no dealings in the capital markets as yet and wanting to learn about investment possibilities or those who have just begun investing in the capital markets). Three Investor's Guides, entitled *Investment Funds, What to Invest in – Investments ABC,* and *Sources of Information on the Capital Market*, were published in 2004. In addition, the PSEC prepared a booklet on the Individual Compensation Scheme, which the Polish authorities consider is particularly important from the investors' point of view. The PSEC also published a series of books providing detailed information on the capital market for more financially literate investors.

c) Social partners and others – instruction

Austria: A wide variety of investment publications are offered by private, non-profit entities such as the employees' association, the Austrian Chamber of Labour (BAK). BAK publishes and distributes brochures targeted at employees (such as *The Savings Book, Financial Investment and Financial Advisor, Building Loan Agreement, 10 Steps to Employee Assessment*). These brochures cover issues specific to employees and include information on all kinds of investment products in which they could potentially be interested, including stocks, securities, and funds. For each particular investment product discussed, the publications also point out the associated advantages, disadvantages and risks. Published in October 2003, these brochures are also available on the Internet.

Czech Republic: Fit for Investment, a programme targeting private investors and initiated in 2002, is provided by ČEKIA (an information agency). Partners in the programme include the Association for Capital Markets (AKAT) and The Union of Investment Companies (UNIS CR). The main aims of the programme are to enhance knowledge of public investors about investment principles and to reinforce trust in the capital market. The programme does this through a series of training courses and annual conferences, called "Investment Opportunities" and the "Fond Market". The seminars attract over 300 individual investors every year in most major cities but mainly in Prague. In 2004, Fit For Investment continued to draw on the financial support of major Czech capital market players, such as IKS KB, FIO, Pioneer Investment and others.

UK: The Trade Union Congress (TUC) in the UK is a good example of the role which trade unions can play in financial education relating to pensions. In addition to keeping members informed and knowledgeable regarding the pension environment and reforms (via detailed briefings and reports on pension policy), the organisation also provides specific information and training relating to pensions. Publications provide members with detailed information on pensions and leaflets have been targeted specifically at young members to highlight the need to save early on in life. The TUC also provides training for pension fund trustees.

d) Employers – financial advice

Japan: In corporate-type DC plans (introduced into Japan in 2001), participants make their own investment decisions and bear the investment risk – so that, in terms of fiduciary duty, employers sponsoring plans do not owe the duty of care directly in relation to asset management investment. However the new "Defined Contribution Pension Law" (DCPL) requires sponsoring employers to give so called "investment education" to participants so that they can make investments based on their own responsibility (DCPL Art.22), and this requirement does fall under employers' fiduciary duty of care. According to a notice from the Director of the Pension Bureau (which is under the Ministry of Health, Labour and Welfare) investment education includes: information on DC plans, other corporate plans and public pensions; characteristics of financial products such as bank deposits, investment trusts, bonds, stocks and insurance; basics of investment such as types and characteristics of risk and return. An employer can entrust the investment education duty to an operation management institution. In this case, the employer is under the duty of care in designating and supervising the operational management institution.[33]

United Kingdom: The National Association of Pension Funds (NAPF), representing 1300 organisations involved with workplace pension provision in

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the UK, are highly supportive of using the workplace as a cost-efficient way of reaching large numbers of people with a financial education message, particularly given consumers demonstrated reluctance to pay for individual retirement planning advice. Since 2006, the NAFP has been offering a service known as PENSIONSFORCE (funded via the UK Department of Work and Pensions' Pensions Education Fund).[34] This is an independent service, provided free of charge to employees via their employers at their place of work and in work's time. Interactive group presentations are used to help people understand the importance and planning for retirement (via raising the awareness of the need to save, increasing appreciation of the need to save for retirement, ensuring that people are better able to make informed choices, showing people where to go for further information). The NAPF claim that their experience shows that there is a clear demand for such services, providing "entry level", generic advice, and that feedback on the programme has been positive.

United States: Employer-provided financial education programmes include those operated by companies such as United Parcel Service (since 2000) and Weyerhaeuser Ltd (since 1984) on long-term planning for savings and retirement. Both initiatives include classes of one or two days in length and are offered at regular intervals, with keen support from management. They are targeted at specific age groups and provide employee participants with a good range of resources and written materials (such as course book manuals which include explanations as to how company benefits fit into broader financial planning strategies). Building on existing written materials and resources, the UPS programme offers a web-based service assisting employees with the development of a personal financial action plan as well as computer software providing advice on debt management, budgeting, insurance, and retirement and personal savings. By contrast, Weyerhaeuser Ltd. approaches its programme provision in a more "holistic" way: the company's programme covers non-financial advice for employees such as how to improve their quality of life and maintain good health (Braunstein and Welch, 2002).

5. Evaluations of financial education programmes with respect to retirement savings

Having discussed the need for financial education in general and specifically the growing need for financial education in relation to pensions, this paper has set out some examples of programmes run by different parties in various OECD countries. What can be said in terms of what works well in these programmes, and what conclusions can be drawn?

Given the increasing responsibility of individuals for their retirement incomes, it is important that they make the best choices possible. Improving the financial knowledge of individuals will certainly play a role. Therefore, an assessment of the effectiveness of financial education programmes in improving this knowledge and an evaluation of what approaches have worked well is important.

Evaluations of financial education programmes undertaken so far come from the United States. These can be classified as either subjective or objective. The subjective evaluations ask participants in the financial education programme for their views about the information provided and about whether in response to this information they intend to change their behaviour by, for example, saving more or opening up a retirement account. This can be done by surveying participants both before and after they have taken a course in financial education. The objective evaluations identify some goal, such as an increase in participation rates or in contribution rates to a defined contribution plan, and then use data and statistical techniques to determine whether there is a significant relationship between attendance at a financial education programme and change in the goal variables.[35]

Subjective evaluations

Financial education seminars have an effect on individuals' retirement goals and savings behaviour according to Clark, *et al.* (2003). These authors investigated the responses to questionnaires distributed at 60 TIAA-CREF financial education seminars held at educational institutions and non-profit organisations in the United States between March 2001 and May 2002.[36] Participants completed a survey on retirement goals, attended a one-hour financial seminar, and then filled out a second questionnaire to see if these retirement goals had changed. In analysing the results, the authors find that 34 per cent of the participants changed either their retirement income goal or their retirement age goal in response to the seminar. Ninety-one per cent of respondents reported that they anticipated making changes to their retirement savings plans. The authors conclude that the provision of financial information has an important effect on saving for retirement.

As discussed in the following section, these results do support those of other studies that use objective evaluation methods. There are several limitations to this study, however. This survey looks at the responses of those who chose to attend the seminar and, who therefore, might be more disposed to change their behaviour than individuals not attending the seminar. In other words, their behaviour might not be representative of the average worker. More important, there was no follow-up to see if respondents actually carried out the actions they said they intended to do. There can be a big difference between what individuals plan to do and that they actually do.

Objective evaluations

A 1996 NBER study finds that participation in and contributions to voluntary savings plans [401(k) plans] are greater when employers offer frequent retirement seminars (Bayer *et al.*, 1996).[37] The authors find that non-highly compensated workers experience the largest effects, with a 12 percentage point increase in participation rates and a one percentage point increase in the contribution rate.[38] Highly compensated workers experience an increase in participation of six percentage points but no increase in contribution rate. Lusardi (2003) also finds that attending a retirement seminar increases workers' savings. The effect of the seminars is especially strong for those with low levels of education and those with low levels of savings. Using data from the Health and Retirement Study, she finds that attending retirement seminars increases financial wealth by 18 per cent. For those at the bottom of the distribution, the increase in financial wealth is 70 per cent.

The evidence on the effectiveness of brochures and other written material is mixed. Bayer *et al.* (1996), find that written materials, such as newsletters and summary plan descriptions, have no effect on participation and contribution rates. However, Clark and Schieber (1998), using employment records gathered by Watson Wyatt Worldwide from 19 firms covering 40,000 employees, find that certain types of written material do have an effect. They compare three levels of plan communications: distribution of plan enrolment forms and required periodic statements of account balances, provision of generic newsletters related to participation in 401(k) plans, and provision of materials specifically tailored to the 401(k) plan sponsored by the individual company. The authors find that the provision of generic newsletters increases participation by 15 percentage points while the provision of information specific to the individual company's 401(k) plan increases participation an additional 21 percentage points. Thus, employee participation in voluntary retirement plans can be increased by 36 percentage points if a company provides both generic and specifically tailored financial information. The authors also find that the provision of information specific to the company's 401(k) plan increases the contribution rate by two percentage points. However, the contribution rate is not significantly affected by the provision of generic newsletters on 401(k) plans.

A survey by Ernst and Young (2004) of human resources and employee benefits professionals in a cross section of large employers finds that personalised counselling programmes are most influential in changing participant behaviour and that financial information alone is not sufficient. In most of the firms surveyed there is little response to traditionally provided financial education such as brochures upon enrolment and quarterly statements thereafter. When employers use more personalised programmes such as telephone or in-person counselling, there is a substantial increase in the percentage change in participant investing. The study concludes that one-on-one counselling is better able to help employees understand the importance of saving and to equip them to determine the best course of action to meet their financial needs. However, such counselling can be expensive for employers to provide.

Notes

1. Unless otherwise indicated, the sources for the example financial education programmes illustrated in this section come from responses to the OECD questionnaires on financial education, provided by OECD member countries and selected non-member countries.
2. Reviewable on CFEE's website: *www.cfee.org.*
3. *www.eigenvorsorge-report.de.*
4. See HSBC's survey, "The future of retirement in a world of rising life expectancies: Attitudes towards ageing and retirement – a study across 10 countries" *http://a248.e.akamai.net/7/248/3622/5d4393a0c726bf/www.img.ghq.hsbc.com/public/groupsite/assets/retirement_future/hsbc_future_of_retirement.pdf;brochid=VEGF3DCWMFYFHQFIYNKSGWQ.*
5. This "Key Facts" document will include a two-page "Quick Guide" that will describe life products. In addition, the FSA will also publish a Discussion Paper on projection rates.
6. Financial education is also important for financial intermediaries and pension fund fiduciaries, as their actions will affect the retirement savings of individuals. See appendix for additional information.
7. The following examples are taken from responses to the OECD questionnaires on financial education provided by OECD member countries and selected non-member countries.
8. *www.eficert.org.*
9. See forthcoming OECD Working Paper on Pension Fund Governance – to be published in 2008.
10. Available at *www.capsa-acor.org.*
11. The following examples are taken from responses to the OECD questionnaires on financial education from OECD member countries and selected non-member countries.
12. The difficulties of providing such combined statements should not, however, be underestimated – for a discussion on the topic see: "Pension Reform, Financial Literacy and Public Information: A Case Study of the UK", by Edward Whitehouse, available on – *http://siteresources.worldbank.org/SOCIALPROTECTION/Resources/SP-Discussion-papers/Pensions-DP/0004.pdf.*
13. "*It's good to talk*", IPE March 2003, available on *www.ipe.com*. The article discusses how pension funds have a wide range of options including journals and newsletters, presentations and road shows, internet websites and help desks.

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Examples quoted include ABN Amro Bank in the Netherlands, which used direct marketing rather than road shows to communicate its new "hybrid" DC pension scheme to its 40 000 staff. Respondents to the discussed survey preferred face-to-face communication – preferably "one-to-one" – with almost three quarters (73%) feeling that presentations and road shows are the most effective way of communicating with members, and 71% favouring helpdesks. A lower percentage (58%) found websites effective, and there was less enthusiasm for journals and newsletters (with only 46% thinking this the most effective channel of communication). A substantial majority (88%) agree that media coverage has made people more aware of pensions – though not always in a positive way.

14. MacFarland *et al.* (2003), study the link between psychological attitudes towards money and retirement planning using the results of a survey of 1 141 randomly selected individuals in Vanguard recordkeeping plans. The authors find that attitudes are important and are linked to specific behavioural differences with respect to plan participation, investment decisions, and engagement with retirement plan accounts. They find in their sample that slightly more than 50 per cent of participants have no strong retirement goals and lack the discipline to set and adhere to goals; consider financial matters to be a source of stress, anxiety, and confusion; or are uninterested in the future.

15. These findings also suggest that, in some cases, a strengthening of consumer protection and of the regulation of financial institutions might be required to address deficiencies in financial capacity.

16. By matching responses to their survey with administrative data, the authors determine that almost none of the employees who reported that they intended to increase their savings rate in the next two months actually did so.

17. Benartzi and Thaler (2002) conclude that autonomy with regard to retirement savings has very little value because individuals have difficulties choosing their portfolio in a consistent manner. MacFarland *et al.* (2003) study the link between psychological attitudes towards money and retirement planning. The authors find that in their sample more than half of the participants have no strong retirement goals and lack the discipline to set and adhere to goals, consider financial matters to be a source of stress, anxiety, and confusion, or are uninterested in the future. In their survey of Dutch workers, Van Rooij *et al.* (2004) conclude that individuals generally prefer low-risk, low-return portfolios for their retirement savings but tend to choose a portfolio with more stocks than they had initially opted for.

18. Iyengar *et al.* (2003).

19. Unless otherwise indicated, the sources for the example financial education programmes illustrated in this section come from responses to the OECD questionnaires on financial education of OECD member countries and selected non-member countries.

20. *www.investored.ca*.

21. As a result of this legislation, Australian workers are able to select their own superannuation fund. Previously, the employer chose the superannuation fund.

22. *www.superchoice.gov.au*.

23. The scheme provides for all employees starting a new job to be automatically enrolled. They will have the option to opt out after an initial cooling off period. Employees will contribute at a rate of four or eight percent of their salary or wages. Employee contributions will be directed to privately provided investment vehicles and will be locked in until the age of 65. Members will be entitled to withdraw their

funds earlier than the age of 65 for the purchase of a first home. The government would be providing an up front contribution to each member's accounts and will be contributing towards the fees. Members will be able to make an active choice about the investment vehicle that they will be contributing towards. If no active choice is made, the member will then be allocated to a default option. The default provider or providers will be selected by the government. Employers are also able to select default providers for their employees. This will not affect the member's ability to voluntarily select a provider themselves.

24. More information available from: *www.choosetosave.org*.

25. *www.choosetosave.org/ballpark/*.

26. Specialised financial entities managing and promoting the individual accounts part of Mexico's system and responsible for the investment of resources through the *Sociedades de Inversión Especializadas en Fondos para el Retiro* (Siefores) (Investment Funds Specialised in Funds for Retirement).

27. These materials include detailed information regarding the equivalent fees (a calculation made by Consar in order to make comparable the different kind of fees that the Afores charge) and how to compare the final balances you might obtain with each Afore, either by Internet or by telephone, the "final balance calculator" (a special software programme created by the Consar that gives the workers the approximate amount of money that they could have at the end of his labour life, based on their actual age, income and the Afore that manages their funds).

28. The information stands are located at commercial centers, subway stations and some strategic points in the main streets. This booths are easy recognisable and one or more specialists are there in order to resolve any questions that workers might have. They also have a variety of materials to support and extend their explanations.

29. *www.dgsfp.mineco.es*.

30. These information pages include informational documents on "Mutual funds", offering information in plain language about these products; "Covered warrants and structured bonds", a page helping investors understand the specific features (*e.g.* reverse convertibility) of these structured financial products and offering animated presentations as well as two calculators making it easier to calculate the price of structured bonds or to compare the price of similar covered warrant offered in the market.

31. Also to be found on the CNMV website are columns offering concrete, practical advice when dealing with investment institutions and intermediaries, warning messages on unregistered companies, a list of necessary precautions for investors in order to operate safely in the securities markets and glossaries of financial terms (available at *http://www.tesoro.es/sp/deuda/glosario.asp*).

32. *www.dgspf.mineco.sp*.

33. See "Reconsidering Japanese corporate and personal pensions: from a legal point of view", Hideyuki Morito – *http://www.oecd.org/dataoecd/51/30/2763645.pdf#search='Reconsidering%20Japanese%20corporate%20and%20personal%20pensions%3A%20from%20a%20legal%20point%20of%20view%E2%80%99%2C%20Hideyuki%20Morito'*

34. For further information see *http://www.napf.co.uk/PENSIONSFORCE*.

35. With respect to 401(k) plans, there are five behaviours that can be monitored to measure the impact of financial education: changes in participation rates,

changes in contribution rates, changes in investment allocations, loan activity, and rollovers by terminated employees.

36. TIAA-CREF are non-profit organisations providing financial products to individuals in education, research, and health care. Topics discussed at these seminars include the amount of retirement income needed to maintain pre-retirement consumption; the amount of saving needed to achieve the retirement income goal, and the risk-return characteristics of alternative investments. Participants were also asked if they intend to change the allocation of their invested funds in response to the seminar. The sample consists of 663 participants who completed both questionnaires.

37. The authors used data from the 1993 and 1994 versions of the KPMG Peat Marwick Retirement Benefits Survey. This survey included approximately 1100 employers selected at random from a list of all private and public employers in the United States with at least 200 employees. Employers were asked about the administration, features and employee utilisation of their retirement plans, as well as the extent to which they provided financial education and guidance to their employees.

38. Given that the average contribution rate is three per cent, an increase of one percentage point represents an increase of 33 per cent in the contribution rate.

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Chapter 3

Conclusions and Lessons Learnt

The following lessons can be drawn from the surveys considered and the case studies examined:

- ***Broad based:*** Surveys show that many consumers have little knowledge about common financial products and lack information on such basic financial issues as the relationship between risk and return. These problems are particularly acute in relation to pension and retirement savings products. Financial education programmes therefore need to be targeted to reach as many consumers as possible, particularly when they relate to retirement savings issues. For example, policymakers might consider conducting national campaigns to raise awareness about the importance of understanding saving for retirement, the changing nature of the retirement savings environment and the increased responsibility of individuals. Some of the most successful campaigns are ones with a strong government lead but supported by a wide range of social partners, as well as industry and other groups.
- ***Targeted:*** Although financial literacy levels are low in general for consumers, they are especially low for certain groups of consumers, such as the less – educated, those at the lower end of the income distribution, and minorities – groups which are particularly vulnerable when it comes to securing adequate retirement income. Thus, policymakers should consider targeting specific financial education programmes to those groups of consumers who are most in need of it. Moreover, programme content could also be adapted to suit the specific characteristics and needs of different audiences. Approaches to retirement income and pension planning need to be more specific and will be subject to individual judgements between competing self interest. For example, attitudes towards consuming now or saving for later and tolerance for levels of debt and risk are likely to vary across individuals, even in a relatively homogenous socio-economic group. Financial literacy levels vary across sections of any population depending on age, gender, profession, education levels and even language groups, and the combination of these factors. For example, young people, who tend to show aversion to riskier investment products despite the fact that they theoretically should accept greater risks due to the "time horizon" of their retirement-related investments, need information and education on the risk-return trade-off; and self-employed workers, for example, who tend

to be able to select their own retirement savings providers, require education about the varying costs of different retirement products and providers.

- ***Realistic comprehension:*** Despite the surveys clearly demonstrating low levels of financial understanding, consumers have also been shown to feel more confident than their actual financial knowledge warrants. An important aspect of financial education programmes is increasing consumers' awareness of their need for financial information, so that they will then seek it out. A particular challenge with pensions is overcoming individual's "myopia" regarding long-term savings persuading them to start saving from their retirement early enough. Therefore, financial education programmes reaching individuals whilst still in education or immediately when they start work may be required. Combined information projecting public and private sources of retirement income may help individuals to realize how much they personally need to save to reach their desired living standards in retirement. On-line calculators can also be useful tools for showing individuals how much they need to save to ensure an adequate retirement.
- ***Easy to understand:*** Many consumers believe that financial information is difficult to find and understand – particularly in relation to retirement savings products, which can be complex. This suggests that another important role for financial education programmes is to inform consumers about where to go to find information and to present this information in ways that are easy for consumers to understand (*e.g.* no jargon, comparable data, etc.). The media have an important role to play in communicating financial issues in a comprehensible way. One idea is to encourage editorial coverage to be expanded from the boundaries of the business media's financial columns and into accessible and consumer-friendly media sources such as the local, regional and tabloid papers, lifestyle magazines and radio stations. Financial education on retirement has been found to work well when it is relevant, personalized and interactive.
- ***Variety of sources:*** Consumers receive financial information through a variety of sources and these sources tend to differ according to demographic characteristics. Many consumers, notably those with lower incomes, receive financial information through television programmes. A large number of consumers prefer to receive financial information through personal contact, such as consumer help lines or personal advisors (though there are obviously costs involved with this approach). Meanwhile the impact of brochures and other written material is not so obvious. Policymakers will need to think about the most effective delivery channel for the consumers they are targeting. With respect to delivery channels, employers with more advanced, web-based financial communication

programmes tend to have the greatest effect on participation and contribution rates of their employees, encouraging workers to contribute greater amounts to their plans than employers using only written financial communication materials.

- ***Ongoing:*** The benefits of programmes and campaigns that are run on a continual basis, spanning different generations, and not just organised as one-off initiatives are highlighted in the surveys.
- ***Financial advisors:*** Many consumers accept without question what their financial advisor recommends, particularly when it comes to complex products such as pensions and retirement savings plans. Thus, providers of financial education programmes should make available information on the types of advisors, questions to ask of an advisor, and objective and disinterested information on the use of financial advisors. Financial education for fiduciaries and intermediaries is also particularly required in the area of pensions and retirement savings plans. Care should also be taken to distinguish between financial education and advice and conflicts of interest in pension provisioning should be avoided.
- ***Plan sponsor and provider role:*** Sponsors and providers of retirement savings plans should be encouraged to play a role in offering financial education to ensure that workers have an adequate retirement income. Financial education seminars and personalised financial counselling programmes offered at the workplace increase worker participation in and contributions to voluntary savings plans, particularly if linked to immediate and easy ways to take action. On-going communication can also alert employees if balances in pension plans are particularly low, as peer comparison can be a powerful tool to drive engagement. However, there is no such thing as a one-size-fits-all financial education programme that will address the needs of all workers. Plan sponsors and providers will have to be flexible in the provision of financial education programmes and offer a variety of approaches. Also, plan sponsors should at least direct employees to where they can find the necessary advice and support to help make decisions about future pension arrangements. Sponsors require sufficient pension knowledge in order to know which retirement scheme options are available to them, and to be able to comprehend the regulatory framework in which these retirement scheme benefits can be offered to their workers/members. Sponsors who are employers should be aware of that gains in financial awareness accompanying the provision of workplace retirement savings plan can result in major advantages to their organisation and their employees, such as improvements in recruitment and retention.
- ***Individual choice:*** Particular care needs to be taken in relation to financial education and information provided for retirement savings plans which

involve individual choice. Pension providers need to provide sufficient information to allow for informed investment decisions (including an explanation of the different investment options, their risk and return profiles, the costs they involve, on-going balances, etc.).

- ***Tiered approach:*** For plan providers dealing simultaneously with workers who have little financial knowledge and need simple explanations and with workers who are quite sophisticated and want detailed information, one solution is the use of a "tiered" approach. In such an approach, the simplest explanations and most limited number of choices are offered in the lowest tier. However, one of the choices at this level is "more funds" or "more information" so that more sophisticated workers can have access to additional options. Default options should also be offered and carefully crafted.
- ***Automatic Enrolment:*** To overcome behaviours such as procrastination, or an unwillingness to act – inertia, it might be necessary to complement financial education programmes with automatic enrolment in defined contribution plans accompanied by default contribution rates and default investment allocations (which should be carefully designed to ensure that workers are not taking on either too much risk or making sub-optimal investments).

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APPENDIX

OECD Recommendation on Good Practices for Financial Education Relating to Private Pensions

Approved by the OECD COUNCIL on March 28, 2008

RECOMMENDATION OF THE COUNCIL

THE COUNCIL,

Having regard to Article 5(b) of the Convention on the Organisation for Economic Co-operation and Development of 14 December 1960;

Considering that in its "Recommendation on Principles and Good Practices for Financial Education and Awareness", the Council invited the Committee on Financial Markets, the Insurance and Private Pensions Committee and its Working Party on Private Pensions to identify further good practices, inter alia, in the pension education field;

Considering that the "Good Practices on Financial Education Relating to Private Pensions" set out in the Annex to this Recommendation (hereinafter referred to as "the Good Practices") complement the Principles and Good Practices for Financial Education and Awareness as a part of the overall project on financial education and that these Principles fully apply to the private pensions field;

Considering that the Good Practices have also been structured to ensure compatibility with the "Good Practices for Enhanced Risk Awareness and Education on Insurance Issues" developed in parallel by the Insurance and Private Pensions Committee;

Considering that financial education is particularly important in the private pensions field due to the unique nature of these financial products – which are complex, exceptionally long-term contracts with wide social coverage;

Considering that various demographic and social changes – including increasing life-expectancy and the rise of defined contribution pensions allowing individual choice – accentuate the risks faced by individuals in relation to private pensions;

Considering that the private pensions are increasingly important as a source of retirement income, which enlarges their impact on financial markets worldwide;

Considering that not only do consumers consistently demonstrate low levels of financial literacy in general, but often lack a good understanding and knowledge of pensions and retirement savings plans;

Considering that government and relevant public and private institutions in both member countries and non-member economies may benefit from international guidance on financial education relating to private pensions;

Considering that the implementation of the Good Practices will have to take account, depending on national specificities, the differing needs for financial awareness and education in the private pensions field, initiatives already undertaken, the stakeholders involved in the financial awareness and education process and the pension regulatory and supervisory framework in place;

On the proposal of the Insurance and Private Pensions Committee, its Working Party on Private Pensions and the Committee on Financial Markets;

RECOMMENDS that member countries promote financial awareness and education relating to private pensions and that, in this regard, governments and relevant public and private institutions take due account of and implement the Good Practices for Financial Education relating to Private Pensions which are set out in the Annex to this Recommendation, and of which they form an integral part.

INVITES member countries to disseminate these Good Practices among public and private sector institutions involved in financial awareness and education and in pensions issues.

INVITES non-members to take due account of this Recommendation and to disseminate these Good Practices among public and private sector institutions that are involved in financial awareness and education and in pensions issues.

INSTRUCTS the Insurance and Private Pensions Committee and its Working Party on Private Pensions to exchange information on progress and experiences with respect to the implementation of this Recommendation, review that information and report to the Council not later than three years following its adoption, and, as appropriate, thereafter.

Good Practices for Financial Education Relating to Private Pensions

1. Financial education and retirement products: framework, definition and objectives

Taking into account national circumstances, financial education for retirement products should be encouraged generally, whether as part of the wider financial education effort or through distinct programmes. Such education programmes should be conducted in a coherent and transparent manner between main stakeholders.

Within this context, financial education specifically related to retirement products should help to promote understanding of the changing retirement environment, the need for long-term savings, and of investment products. Well-informed consumers can help to improve the performance of fiduciaries and financial intermediaries.

Financial education should be taken into account within the pension regulatory and supervisory framework and considered as a tool to enhance social and economic growth and well-being through reliable, transparent, efficient and competitive markets for pension products along with prudential regulation and consumer protection (including regulations on the provision of information and advice on pension and retirement products). Financial education does not substitute but rather complements prudential regulation and consumer protection. These are especially needed in the pension sector to protect pension beneficiaries who are particularly vulnerable consumers, with pensions often involving subsistence rather than discretionary savings. In addition, financial education can promote market efficiency and symmetrical information.

2. Main stakeholders' roles and responsibilities in enhancing public awareness and capability on retirement income issues

A. Governments and other public authorities

Governments and other public authorities have a significant role to play in financial education programmes on pensions through public awareness campaigns and should provide a strong lead, coordinating projects with a range of other partners. Specific websites or a specialised structure or agency should be considered.

Governments and other public authorities should promote awareness and education of financial and regulatory issues that bear on pension financial education such as information disclosure guidelines and corporate and financial governance guidelines.

Governments and other public authorities should explain public policy clearly (particularly where mandatory savings are involved) – including any pension reforms taking place, the changes in the pension environment, increased individual responsibility and demographic and other changes requiring individuals to save more for their retirement – in order to maintain transparency and confidence in the pension system and thereby encourage individual saving for retirement. Care should, however, be taken in public campaigns to distinguish between financial education and political advocacy for a particular form of pension or retirement income system.

Governments and other public authorities should direct public awareness campaigns as broadly as possible, given the widespread lack of understanding of pension issues. In addition, specific programmes targeted at the most vulnerable groups (migrants or those with the lowest income and savings levels) can also have a significant impact.

Governments and other public authorities should work towards making individuals aware of their limited knowledge of financial matters, and pension products in particular, stressing the risks of not having an adequate income in retirement, and should provide information on where to seek further information and advice on how to mitigate these risks.

Governments and other public authorities should strive to ensure that reliable information of projected public pension income is delivered on a regular basis by public pension providers in order for individuals to have a clear and prudent projection of potential retirement income.

Governments and other public authorities should work to ensure that financial education relating to pensions begins as early as possible – potentially as part of school curricula – in order to encourage individuals to start savings from as young an age as possible, which is particularly important in relation to defined contribution type pension plans. They should also ensure that financial education on pensions is available on an on-going basis, at key points in an individual's life (starting work, marriage, birth of child, etc.).

B. Social partners

Trade unions, employer associations, and pension fund associations, should contribute to financial education programmes, given their important role in negotiating pension plans and contracts. For example through conducting surveys of their workers or members – as appropriate – in order to ascertain their level and needs with respect to financial education and to find out how they would prefer to receive such information.

Social partners should also be encouraged to provide financial information or training, or should at least inform members about where they can receive help. They should also have a role in making sure that members know what pension and/or retirement savings arrangements are available to them.

Trade unions in particular could also sponsor materials for public education programmes, alone or in cooperation with other social partners, to promote, develop and deliver quality education on pension issues, including on financial issues that are relevant to the interests and well-being of the plan members and the workforce in general.

C. Plan sponsors[1]

Plan sponsors should inform employees of any pension plan offered to them, its broad structure, a projection of what benefits can be expected and any responsibilities which it entails for them.[2]

Plan sponsors should be encouraged to provide financial education for pension plan members, or should at least provide plan members with information on where they can find such training. Seminars – which have been demonstrated to be a successful mechanism for raising retirement savings rates – could be used where costs permit, and should be targeted at lower income earners, where the impact of such activities has been shown to be greatest.

Where plan members take responsibility for investment decisions, such as in defined contribution type pension plans, plan sponsors should at least ensure that workers are aware of this responsibility and have access to information which can help them make informed investment decisions.[3]

Where a plan sponsor's role in the provisioning of the pension plan allows, and where they are aware that employees' or members' contributions to their defined contribution pension plans are significantly insufficient to ensure an adequate retirement income, they should consider alerting employees or members to this risk.

Where employees or members are offered a range of investment options, plan sponsors should consider limiting, in a well-structured fashion, the number of investment choices available (or provide a "two tier" choice between a basic system and a system offering more sophisticated investment choices) and should provide a suitably structured default option in order to help employees or members make optimal pension investment decisions.

Plan sponsors should be particularly mindful of potential conflicts of interest that may affect their judgement in designing financial education programmes and initiatives.

D. Pension funds and fiduciaries, providers of retirement income products and intermediaries[4]

Pension funds, fiduciaries, providers and intermediaries should produce information for individuals on the design, operation and performance of pension funds and retirement products which is timely, accurate and accessible.

They should be encouraged to supply prudent projections of retirement income which can be expected from pension funds and retirement products.

Information should be in as clear and simple a format as possible; for example, avoiding "jargon", ensuring comparability between products where possible, etc. Any institution providing information should check that the information has been understood.

Information should be provided to individuals on the choices open to them and their responsibilities in relation to retirement savings plans, for example, the individual choices with respect to participation and contribution levels existing in many defined contribution schemes. In such schemes, a single source with clear and comparable information on the types of investment, including risk and return profiles, and the costs involved is required.[5]

Intermediaries should be encouraged to engage in initiatives increasing the population's awareness of the need to save for retirement. However, clear distinctions should be made between financial education and commercial product recommendations. Any advice for commercial purposes should be transparent and disclosed.

Clear and consistent general legal obligations, standards or codes of conduct should be developed for intermediaries. Checking of clients' proper understanding by intermediaries – who should be adequately trained in this respect – should be part of their good governance, as pensions involve long-term commitments and can represent a substantial portion of the current and future income of individuals.

Those providing any of the above services should be suitably trained, qualified and regulated.

Requirements should be established specifying the types of information (including where to find information and the provision of general comparative and objective information on the risk and returns of different kinds of pension products) that financial institutions need to provide to clients on pension products and services.

Financial education should be encouraged for trustees and other pension fund fiduciaries to ensure they have the necessary skills (over and above any "fit and proper" requirements) to make suitable decisions and fulfil their fiduciary duty. Information and suggested questions could be provided to individuals to help overcome asymmetries of information and allow them to evaluate advice from financial intermediaries successfully.

3. Methodology: evaluation of needs, of programmes and of means at hand

A. Assessing needs and existing programmes

According to national circumstances, financial education initiatives relating to retirement products should make on-going efforts, *inter alia*, to develop methodologies and criteria to assess the needs of the population as regards financial literacy and capabilities with regard to retirement income issues as well as the impact and effectiveness of existing programmes in this respect.

According to the needs of the country in question, these processes should involve:

- Evaluation on a more systematic basis of the risks that could affect the retirement income of individuals and their relatives, along with analysis of risk and/or populations that are particularly likely to have low incomes in retirement.
- Evaluation and development of methodologies for improving the identification and assessment of the education needs of the population on retirement-related issues (especially in relation to certain more vulnerable groups, products which are a frequent source of misunderstanding or which involve a greater transfer of risk), and the reasons for any shortcomings.
- Evaluation of the population's degree of financial literacy and more or less active behaviour as regards retirement income issues.
- Systematic evaluation of enforced measures and programmes aimed at enhancing financial literacy related to pensions having regard to a set of predetermined criteria and involving a cost and benefit assessment.

B. Mechanisms and tools

In the absence of other pension schemes and adequate levels of financial education and without limiting the freedom to contract, automatic enrolment in voluntary pension plans with appropriate default mechanisms and transparent opt-out procedures for contributions rates and for investment allocation should be considered.

Financial education in relation to pensions should be made available through as many sources as possible (internet, brochures, advice bureaus, etc.).

Broad media coverage (*e.g.* radio, television, print journalism, billboard advertising and internet), and the organisation of events to raise awareness of pension issues and of the importance of financial education in this respect should be encouraged. Another possibility would be to boost the awareness of the media actors themselves (*i.e.* journalists) and public opinion in general regarding the importance and role of individual saving for retirement.

The development of various tools – including financial calculators – for estimating retirement income needs and savings requirements should be made easily available and should be promoted.

Notes

1. A plan sponsor is an entity (*e.g.* a company, industry, employer, employee or professional association) that designs, negotiates and normally helps to administer an occupational pension plan for its employees or members.
2. For details on the information which should be provided to plan members, see "*OECD Guidelines for the Protection of Rights of Members and Beneficiaries in Occupational Pension Plans*", *http://www.oecd.org/dataoecd/16/33/34018295.pdf*, – Guideline IV "*Disclosure and availability of information*".
3. For details on the information which should be provided specifically to members of DC schemes see "*OECD Guidelines for the Protection of Rights of Members and Beneficiaries in Occupational Pension Plans*", *http://www.oecd.org/dataoecd/16/33/34018295.pdf*, – Guideline V. "*Additional rights in the case of member-directed, occupational plans*."
4. Providers are entities that administer pension plans and other retirement products. Pension plan sponsors may be providers, but most often providers are independent pension fund entities or financial institutions. In some countries this role would be taken up by the pension fund itself. Intermediaries are financial institutions or individuals advising consumers on decisions relating to their retirement income, including the choice of pension product.
5. For details on the information which should be provided specifically to members of DC schemes see "*OECD Guidelines for the Protection of Rights of Members and Beneficiaries in Occupational Pension Plans*", *http://www.oecd.org/dataoecd/16/33/34018295.pdf*, – Guideline V. "*Additional rights in the case of member-directed, occupational plans*."

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